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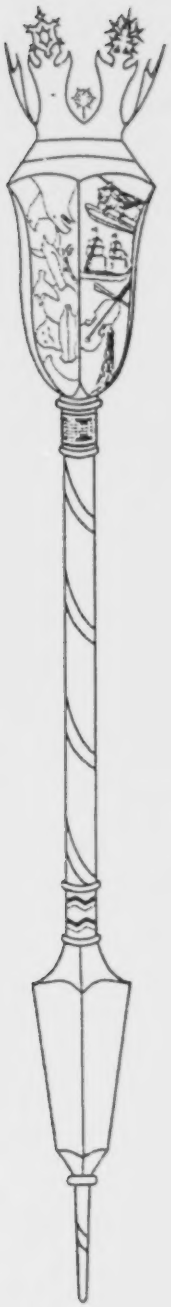

Northwest Territories Legislative Assembly

Standing Committee on Accountability and Oversight

The Report on the Review of the Auditor General of Canada to the Legislative Assembly for the years 1997 and 1998

and

Transcripts from the Public Hearings held September 27th and 28th, 2000

Chair: Mr. Charles Dent

MEMBERS OF THE STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT

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MLA Frame Lake
Chair

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MLA Inuvik Boot Lake
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Northwest Territories Legislative Assembly
Standing Committee on Accountability and Oversight

November 3, 2000

THE HONOURABLE ANTHONY (TONY) WHITFORD
SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Accountability and Oversight has the honor of presenting its Report on the Review of the *Report of the Auditor General of Canada to the Legislative Assembly* for the years 1997 and 1998, and commends it to the House.

Charles Dent
Chair

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The Report on the Review of the Report of the Auditor General to the NWT Legislative Assembly for the years 1997 and 1998

Introduction

The Standing Committee on Accountability and Oversight met to review the Report of the Auditor General for the years 1997 and 1998 on September 26 through 28, 2000. The first day involved briefings by staff from the Committee and staff from the Office of the Auditor General on issues raised in the Report of the Auditor General. Public meetings were held on the 27th and 28th of September, 2000 at which time Committee Members took the opportunity to raise issues with witnesses that came before the Committee. The list of witnesses included the Comptroller-General, Mr Lew Voytilla; Mr. John Carter, Assistant Comptroller General, Mr. Doug Doan, Assistant Deputy Minister of the Department of Resources, Wildlife and Economic Development; Mr. Afzal Currimbhoy, Chief Executive Officer of the Business Development Corporation; Mr. Fred Koe, President of the Northwest Territories Development Corporation; and Ms. Elizabeth Wyman, Vice Chair of the NWT Development Corporation.

Department of Resources, Wildlife and Economic Development - Assistance Programs for Businesses

The Department of Resources, Wildlife and Economic Development have a number of programs that provide financial assistance to businesses in the Northwest Territories. These include the NWT Development Corporation, the NWT Business Credit Corporation, the Business Development Fund and Community Futures. It became apparent during the discussions that the roles and mandates of the different funds are not clear. Is the intent of these funds largely social, to assist communities where there is not much economic opportunity, or is it support for qualified northern businesses? Committee Members feel it is time for these programs to project a clear idea of what the intent of these funds are; a social vehicle or an economic vehicle.

Absence of Regulations for the NWT Development Corporation Act

The *NWT Development Corporation Act* prescribes that regulations be developed for subsidies paid by the Corporation. Despite the Act being in force since 1990 and this issue being presented in the 1996 Auditor General's Report, regulations

have not been developed to date. Instead of developing regulations, the Financial Management Board issued a Record of Decision (ROD), dated November 14, 1989, to set the limits on the subsidies. The use of RODs and Directives rather than regulations to govern subsidies is of grave concern to the Committee. RODs are not public documents. Despite assurances from the Comptroller General that the content of the ROD was made public, it was not done so in the avenue created in the legislation. Regulations are more available to the public thus more open and transparent.

Corporations are intended to operate at "arms length from government"; but there is the potential that they may then feel that they do not have to comply with Financial Management Board RODs and Directives. In his appearance before the Committee, the President of the NWT Development Corporation indicated that the ROD and Directives issued for subsidies were seen as "guidelines". The rules governing NWT Development Corporation subsidies have slipped from a legislated requirement for regulations, to a Record of Decision, to mere "guidelines".

There is a difference of opinion between the Comptroller General and the President of the NWT Development Corporation. The Comptroller General indicated to the Committee that the NWT Development Corporation should be following the directives explicitly. Should there be a legitimate reason why the directive would be inappropriate in a particular investment circumstance, the NWT Development Corporation should acquire an exemption from the Financial Management Board Secretariat prior to issuing funds. The Comptroller General further stated that, to date, the NWT Development Corporation has never sought such an exemption.

As stated earlier, the issue of the using RODs instead of regulations has been raised in previous Auditor General's reports. This causes the Committee to question how seriously the government considers the Report of the Auditor General and its review by the Committee. The Comptroller General has indicated that it would not be difficult to transfer the RODs into regulations and "it should be able to happen before Christmas".

Recommendation #1

The Standing Committee recommends that the present Financial Management Board's Record of Decision setting the limits for subsidies issued by the Northwest Territories Development Corporation be transferred into regulations by December 31, 2000.

NWT Development Corporation - Lack of Information on Jobs Created

The Financial Management Board Record of Decision stipulates that operational subsidies and investments from the NWT Development Corporation, to its subsidiaries, be based on each job that the subsidiary creates. The job may be created directly or indirectly. The Auditor General noted that the NWT Development Corporation has not collected information on the number of jobs created. Therefore, it cannot be determined if the subsidies and investment monies exceed the limits stipulated by the FMB. The Comptroller General stated to the Committee: " ... we cannot provide to you the reports from the Northwest Territories Development Corporation that would verify that the jobs were actually created in the numbers that they anticipated". Compounding the situation, the Financial Management Board and the NWT Development Corporation have not reached an agreement as to the definition of "job" for the purposes of measurement. In spite of the requisite information failing to being collected and a lack of agreement on the definition of job, monies continued to flow to the corporation.

As a result of information not being compiled, neither the government, nor subsequently the Committee has any concrete evidence as to how effective the NWT Development Corporation is in fulfilling its mandate. Further to this, it has to be questioned why monies continued to flow to the Corporation when it was in contravention of the Financial Management Board's Record of Decision governing its subsidies.

Overexpenditure by the NWT Development Corporation

The *Northwest Territories Development Corporation Act* requires the Corporation to obtain Financial Management Board approval when subsidies to subsidiaries exceed the maximum amounts approved by the board. During the year ended 31 March 1996, the Corporation exceeded the approved subsidy for Northern Forest Products Ltd. by $747,320 without acquiring the proper approval from the FMB.

For these violations of expenditure guidelines to occur, there must have been a complete lack of monitoring and a disregard for legislative authority. Concerns were raised as to how many other government programs are operating under the same parameters as the NWT Development Corporation. This issue is addressed again in this report under the heading of "Monitoring Third Party Compliance".

Multiple Dipping

The Auditor General observed cases where a business proposal received funding from more than one government program. In some cases, monies from one program were used as equity to secure funding from a second program. Each department or corporation remains responsible for only its portion of the funding and there is no responsibility for any one entity to play a lead role and monitor all the government's funding or investments in a project. The Committee's concern is that multiple dipping and the lack of co-ordination between the different funds makes the overall financial risk to the government greater than it would be if funding came from just one program.

The Business Credit Corporation

Section 15 of the *NWT Business Credit Corporation Act* prohibits disclosure of details pertaining to loans made. The Committee is of the mind that the Department of Resources, Wildlife and Economic Development and its lending agencies must weigh client confidentiality against accountability to the public when lending public funds. Expectations are different when public money is borrowed as opposed to when money is borrowed from a chartered bank. Loans made through the Department of Resources Wildlife and Economic Development are a higher risk. The Committee felt that there are some details of loans that should not remain private. There is client information that can be released to the public without jeopardizing the business. This client information is important for the public to see what is being done with public funds and alleviate the scepticism and mistrust circulating around on how this government has issued loans to businesses in the past. Further, the Committee is of the opinion that there should be a statute of limitations for disclosure of loans that have gone bad.

Recommendation #2

The Standing Committee recommends that the NWT Business Credit Corporation Act be reviewed to make appropriate information on loans available to the public where such information will not jeopardize a business;

And further, that the Act be changed to allow for information on bad debts to become public after a suitable period of time.

Accountability and Performance Measurement

Linkage of Staff to Goals

The Committee discussed the need to include clear goals and performance measurements in both departmental and territorial corporation business plans. Integral to the achievement of goals are monitoring and tracking systems. Employees are instrumental in the achievement of goals but their roles are not being identified. This results in the lack of a clear accountability framework for the achievement of goals.

The Committee questioned the Comptroller General regarding the accountability of staff when goals and monitoring are not accomplished. The Comptroller General indicated that tools to achieve accountability of individuals are limited and include job appraisals and performance bonuses. If a performance was bad enough a person could lose their job; there was no need to implement other punitive measures.

The Committee is of the opinion that an individual staff member's performance appraisal should be directly linked to the department or agency's business plans and the benchmarks used to mark progress towards goals. If a goal or benchmark is not accomplished, it should be determined why not. If the reason is human in nature then, corrective actions should be made. Employees are an integral component of accountability. Corrective actions do not need to be punitive but should include regular performance appraisals, re-evaluating job descriptions on a regular basis and training. Departments and territorial corporations need to ensure that each employee's job description fits into the goals in their business plan.

Tools for Monitoring, Evaluation, Accountability and Enforcement

Many of the issues reported on in the Auditor General's report can be attributed to the need for more diligent monitoring. In the final paragraphs of the report, the Auditor General highlights the need for monitoring investments. "Monitoring is highly important for the Government to know that its funding is achieving the results it expects (par. 8.8)". This statement can be extrapolated and applied to all government activities – monitoring is needed for the government to know it is achieving the results it expects.

Unfortunately, the government appears to be delegating authority and resources without having the necessary systems for monitoring, evaluation and accountability in place. Changes have been made to the Government organization to address financial restraint but corresponding systems for monitoring and evaluation were ignored. This has resulted in a situation where we have delegation without monitoring and accountability.

The Committee is alarmed over the government's inability to take action when a department or corporation does not follow proper procedures. There appears to be nothing, other than withholding managerial bonuses or in the extreme case, termination, to deal with transgressions. Time and again Members have been informed that ultimately, the Ministers and Deputy Ministers are responsible for their departments. However, when a department or agency is found in violation of government procedures, aren't these the people held accountable? What are the consequences and where are the accountability frameworks? During the review, the Comptroller General commented that there are limited tools in the government to get prompt adherence to procedures. When breeches of government procedures occur and no corrective actions are taken, public perception of government accountability suffers.

Recommendation #3

The Standing Committee recommends that the Financial Administration Act be reviewed to address requirements for accountability frameworks, monitoring and tracking systems, and more tools for ensuring compliance with policies, regulations, directives and procedures.

Monitoring Third Party Compliance

The Committee noted that there have been changes in the structure of government and the methods by which it delivers programs. The Comptroller General indicated that upwards of 50% of the Government of the NWT's budget is being delivered by third parties. Further to this, it is unclear what systems and procedures the government has in place to monitor third-party compliance with the conditions of contribution agreements. Without proper monitoring, the government will not have a complete picture of whether important policy objectives are being met. Monitoring of compliance with the conditions of the contribution agreements is important to ensure that the intended results have been achieved.

Recommendation #4

The Standing Committee recommends that it be a condition for all future contribution agreements to include a functioning monitoring and reporting system to ensure compliance with GNWT objectives;

And further, that the Financial Administration Act be reviewed to address requirements for accountability frameworks, monitoring and tracking systems, and more tools for ensuring Third Party compliance with GNWT objectives.

In its response to the 1995 report of the Auditor General, the Financial Management Board Secretariat did indicate that legislative changes to the *Financial Administration Act* might be considered in order to improve third party accountability. To date, these changes have not been made. The Comptroller General indicated that a third party accountability framework will be developed in the winter of 2000-2001. It is hoped that the government will include in these changes, measures to ensure that effective monitoring mechanisms and accountability frameworks are put in place and, more importantly, enforced to prevent a situation similar to the overexpenditure by the NWT Development Corporation from re-occurring.

Contracting

The Auditor General conducted a limited review of contracting practices to gain an understanding of the process and to identify areas of risk. As a result of the review, there were areas of potential risk associated with some of the contracting practices that were examined. Chapter 6 of the Auditor General's Report presents a summary of their observations and indicates that a more in-depth review or audit will need to be done to conclude the extent of areas of risk that are cause for concern.

Recommendation #5

The Standing Committee recommends that the Legislative Assembly request the Auditor General for Canada to conduct an independent review of Government Contracting to ascertain the extent of the areas of risk to government.

The Committee expressed concern that the Government is using Request for Proposals (RFPs) process far too often. The public does not view RFPs as an open and transparent contracting process. The Comptroller General stated that there is a study of best practices that has been completed and proposed reforms in contracting practices will go forward for Financial Management Board consideration in the near future.

Environmental Clean-Up and Related Restoration Costs

Successive reports of the Auditor General have expressed concern over the potentially huge liability resulting from the absence of an allowance for environmental restoration costs. The 1997 report of the Standing Committee on Government Operations recommended that a list of contaminated sites be prioritized, identifying sites that pose a risk to the health and safety of people or wildlife. The Committee further recommended that funding be identified and final

clean up of these sites be conducted at the earliest possible time. The Auditor General notes in paragraph 2.16 of the report, that, "At present, the government has not prioritized the list of potentially contaminated sites, as it does not yet have the data to do so."

The Comptroller General indicated to the Committee that post-division there are about 451 sites with potential environmental liabilities. He further indicated that "they are doing quite a bit to inspect those sites over time and to take remediation action where it is appropriate".

Recommendation #6

The Standing Committee recommends that the Government readdress the recommendations regarding environmental clean-up and related restoration costs presented in the Report of the Review of the Report of the Auditor General to the Northwest Territories Legislative Assembly for the Year Ended March 31, 1996.

Government Response to the Auditor General's Report and the Need for Timelines

On behalf of the government, the Comptroller General has informed the Committee that action was being taken on a number of the issues that were raised in the Auditor General's report. However, the government has not set firm time lines as to when these actions will be completed. During this review the Committee was informed that regulations for the NWT Development Corporation "*should* be able to happen before Christmas"; a third party accountability framework will be completed sometime this winter; a study of best practices has been completed and reforms in contracting practices will go forward to the Financial Management Board in the near future; and that "quite a bit" is being done to inspect sites of potential environmental contamination and "take remediation action where it is appropriate". The lack of firm timelines does not enhance Committee confidence that government is acting expeditiously on these matters.

The lack of regulations for the NWT Development Corporation, the need to assess environmental restoration costs, and the NWT Development Corporation not collecting information on jobs created to show compliance with Financial Management Board Records of Decision are all issues that have been raised in previous Auditor General's Reports dating back to the mid 1990s. Yet, these issues, to date, remain unresolved. This raises the concern of how seriously the Government regards the Auditor General's reports and the Committee's review of the reports. It is now time for Government to become serious and put into place

an action plan to address these issues; an action plan with benchmarks, an accountability framework and timelines.

Recommendation #7

The Standing Committee recommends that the Government develop an action plan, for presentation to the Standing Committee on Accountability and Oversight, that deals with the recommendations raised in the Report of the Auditor General to the Legislative Assembly for the years 1997 and 1998 and the recommendations in this report;

And further, that the action plan contains benchmarks, an accountability framework and firm timelines.

Northwest Territories Legislative Assembly

Standing Committee on Accountability and Oversight

Wednesday, September 27th, 2000

Public Review Of The Auditor General's Report

Office of the Comptroller General

STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT

CHAIRMAN

Mr. Charles Dent

MEMBERS PRESENT

Mr. Bell, Mr. Braden, Mr. Delorey, Mr. Krutko, Mr. Lafferty, Mr. McLeod, Mr. Miltenberger

WITNESSES

Mr. Roger Simpson, Edmonton Office of the Auditor General

Mr. Shawn Vincent, Edmonton Office of the Auditor General

Mr. Ron Thompson, Ottawa Office of the Auditor General

Mr. Lew Voytilla, Comptroller General, Financial Management Board Secretariat

Mr. John Carter, Assistant Comptroller General, Financial Management Board Secretariat

Mr. John Bayly, Principal Secretary

LEGISLATIVE ASSEMBLY STAFF

Mr. Doug Schauerte, Deputy Clerk

Ms. Laurell Graf, Researcher

Mr. Doug Pon, Researcher

STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT

Public Review of the Auditor General's Report

September 27, 2000

CHAIRMAN (Mr. Dent): We are resuming our agenda that we started yesterday. We are on Item No. 9, which is the public review of the Auditor General's report on other matters. First item on the agenda is to have some discussions with the Comptroller General, Mr. Voytilla, who our Clerk has gone to try and find.

Meanwhile, I would just like to welcome to the committee Mr. Roger Simpson from the Edmonton office of the Auditor General, Mr. Ron Thompson from the Ottawa office and Mr. Shawn Vincent, who is also from the Edmonton office, joining us for our deliberations today.

Just for the record, all of the committee Members are present today, with the exception of Ms. Lee and Mr. Nitah, who have advised us that they would not be here. So, just for the committee's or just a reminder that we will be, first of all, going through the report of the Auditor General and the comments that we have with Mr. Voytilla, then we are also going to be meeting later today with Mr. Doug Doan from Resources, Wildlife and Economic Development and at 11:00 with Mr. Fred Koe, who is Head of the Northwest Territories Development Corporation.

I would now like to welcome Mr. Voytilla to the Standing Committee on Accountability and Oversight, now wearing the hat of Public Accounts Committee, and I would also like to, for the record, note that Mr. John Bayly has joined the meeting. Mr. Voytilla, I understand you have opening comments. Would you like to lead off with those?

MR. VOYTILLA: Thank you, Mr. Chairman. I would note that, I apologize for being a little bit late. We had understood the meeting started at 10:00, but I guess that was just a confusion between agendas. I will be shortly joined by John Carter, the Assistant Comptroller General, and by Debbie Delancey, who is the Director of Budgeting and Evaluation, because I think they can add significant comments to the discussion this morning.

I do have some opening remarks and, of course, I am prepared after those opening remarks to engage whatever questions and line of explanations you would like. So, I think Mr. Schauerte has just handed out my opening remarks and I will just start with them. I will note that they are briefer than usual.

Mr. Chairman, I would like to thank you and the standing committee for inviting me to appear today. At the outset, I would note that we are going to be discussing the Auditor General's report on other matters arising from the audit of the 1996/1997 and the 1997/1998 financial statements. These two fiscal periods closed 42 and 30 months ago, respectively. However, I would note that the 1996/1997 financial statements were transmitted to the Commissioner on

respectively. However, I would note that the 1996/1997 financial statements were transmitted to the Commissioner on October 31, 1997 and the 1997/1998 financial statements were transmitted to the Commissioner on October 23, 1998. The Auditor General's report that will be considered today was received in the fall of 1999 and was tabled in the Legislative Assembly by the Speaker on February 22, 2000.

Although the period covered by the Auditor General's report passed some time ago, my experience has been that the Auditor General's office seldom raises issues that are easy or quick to resolve, so I am sure our discussions today will still be very valuable. Certainly any issues respecting the fiscal position of the government are as relevant today as when the report was written. I am sure committee Members are anxious to be briefed on these fiscal matters by the Minister of Finance during the budget development process.

As to the other issues raised in the Auditor General's report, I can generally provide comment and current status, in some cases substantive progress has been made and at others we continue to work away at the issue. In all cases, we take the comments and the observations of the Auditor General seriously and value them as constructive criticism, even if our points of view occasionally diverge. The Auditor General can offer a different perspective on issues and there is always value in the public policy debate that ensues.

Mr. Chairman, in the past I have spoken to each of the issues raised in the Auditor General's report in my opening remarks. This has made them lengthy and I know at times it may have made Members impatient to get to the specific matters they wanted to address. With this in mind, I am going to conclude my opening remarks at this point. I am prepared, however, to speak at length to any of the issues you wish to pursue. Thank you.

CHAIRMAN (Mr. Dent): Thank you, Mr. Voytilla. I guess we are prepared to get right into it. Do we have anyone from the Committee who wants to lead off with questioning Mr. Voytilla? Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Mr. Chairman, a substantial amount of the Auditor General's report focuses on Resources, Wildlife and Economic Development and concerns raised specifically, for the most part, to the business side. We had attempted to get a thorough audit review done of Resources, Wildlife and Economic Development, given our concerns as a new Assembly, which was, unfortunately, blocked by Cabinet. It seems the issues in 1997/1998 are relevant today, in terms of some of the processes. One of the general issues regarding the Northwest Territories Development Corporation is the operation of the Northwest Territories Development Corporation based on record of decision rather than actual regulations that are required and I was wondering if Mr. Voytilla could indicate what steps have been taken regarding getting the regulations developed so that there is some transparency and that decisions cannot be made hiding behind Cabinet secrecy based on records of decision? Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I think the matter the Member is referring to has to do with the investing and subsidization guidelines that the Northwest Territories

Development Corporation is supposed to adhere to in making their planning and operating decisions. The Financial Management Board Secretariat did, as I think is pointed out in the Auditor General's report, set by record of decision guidelines that they wanted the Northwest Territories Development Corporation to adhere to in making those decisions and that is, for the record, it is $10,000 of subsidy as a maximum per job created and where we are talking about capital investments or other types of investments requiring start up funding, we are talking about $100,000 maximum investment per job created. So there are some very firm guidelines with respect to the Financial Management Board Secretariat's expectation of what the Northwest Territories Development Corporation will base it's investment and subsidy decisions on.

Saying that, there is some question of whether or not these guidelines should have been done through regulation instead of record of decision. I know recently, the Northwest Territories Development Corporation has gotten a legal opinion on the matter. I would not say that there is not different ways to look at it, as to what is the appropriate vehicle, but clearly the cleanest is to, in fact, get the regulations in place to transfer those record of decision guidelines into an actual regulation and that work is underway, as I understand it, with the department and the regulation will soon be in place. Of course, there is a related issue with respect to the reporting on the adherence to those guidelines, but with respect to the guidelines themselves, I think they are clear, they just have not been articulated in the technically correct form, which is the regulation.

CHAIRMAN (Mr. Dent): Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Mr. Voytilla indicated there is some question as to which process is most appropriate, record of decision or doing it through regulation, as legally it would seem to be the cleanest way. When you talk about prescribed, our understanding is it means prescribed by regulation. So, who has the questions about whether, in fact, there should be clear, transparent, public kind of regulations? You indicated there was some question as to what approach should be taken. Thank you.

CHAIRMAN (Mr. Dent): Thank you. Mr. Voytilla.

MR. VOYTILLA: The question was posed by the Northwest Territories Development Corporation itself wanting to know to what extent they were bound by the Financial Management Board Secretariat record of decision and that is what gave rise to the legal review and the opinion that was generated. So, it is clear, as we work through the opinion, that there are different ways of looking at it, but clearly the cleanest way to clear the matter up is to pass to regulation. The record of decision has been in place and has been guiding the Northwest Territories Development Corporation since it was passed.

CHAIRMAN (Mr. Dent): Thank you. Just for the record, I note that Mr. Voytilla has been joined by Mr. John Carter from the Financial Management Board Secretariat. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Could Mr. Voytilla indicate what soon means in his time frame as to when these regulations will be ready? He said they will soon be ready. Are we talking days, weeks, months, years, 14th Assembly, 15th Assembly?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, the department and ourselves and Northwest Territories Development Corporation will be working on it. It is not a complex regulation to transfer the record of decision guidelines into regulation, but there is still the drafting that needs to be done and the process itself of going through the approval process and then the Commissioner's signature. So, I do not think we are talking about a year, I think we are talking about certainly something that should be able to happen before Christmas.

CHAIRMAN (Mr. Dent): Mr. Miltenberger, final supplementary.

MR. MILTENBERGER: Thank you, Mr. Chairman. Of course, we will make note of this commitment so that the Public Health Committee can follow up. The question that was touched on by Mr. Voytilla as well, while there is a record of decision, $10,000 per annum per job, for example, can Mr. Voytilla speak to the issue of compliance? Do they have any idea whether, in fact, this record of decision is being followed?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I think the Auditor General's report makes reference that the difficulty here is in the definitions of jobs and the extent to which you, well, what criteria you use to define when you have created a year's employment or job and we have been working with the Northwest Territories Development Corporation on refining the definition so that we had the right measure. They had submitted to us last spring a proposed measure, we commented on that and gave them some advice as to how it could, in our view, improved, I think in June of this year, and we expect to hear back from them very soon with a final draft of how they would actually define a job for the purposes of measuring the employment impact of their investments, which would allow us to properly report on adherence to the guideline.

So, is there a good measure right now and are we getting regular reporting that we are all comfortable with? The answer is, no. Are we working to resolve it cooperatively with the Northwest Territories Development Corporation? Absolutely.

CHAIRMAN (Mr. Dent): I think, Mr. Voytilla, I have told the Member he has had his final supplementary, but I am sure he would like to know when. When will that be answered?

MR. VOYTILLA: Mr. Chairman, the President of the Northwest Territories Development Corporation appears before you, I believe, this afternoon and it is in his ballpark right now, so I think that question would be best addressed to him because we are waiting for him to get back to us.

CHAIRMAN (Mr. Dent): I guess it has to be said that the Financial Management Board Secretariat has set the limits right now, so if the Financial Management Board Secretariat

is allowing, or set the conditions, if the conditions are not being met then you have to say that there is some requirement for the Financial Management Board Secretariat to perhaps be very active in making sure that the rules are met. Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. A little further in this line of questioning. Right now, as it stands, operating by record of decision, the general public out there do not have the ability to get their hands on the regulations as they do with other laws of this government or bills of this government, legislation. If there is interest in how things are operating or if they have concerns from the public point of view of influencing on the political side, they cannot address those or bring it to attention of those they feel need to be made aware of situations that are occurring.

With that, I believe a record of decision, although it has been said that there are guidelines in place and through a record of decision they have been operating, the fact is, with a record of decision, Cabinet can change that at any time it meets. So it is hard to tell from one meeting to the next if things have changed. It is a very serious concern. So, my question would be, are there other areas within government that we operate under records of decision rather than regulation?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: There are hundreds of pieces of legislation and most of them provide for some regulation making capability. There is a tremendous amount of government policy that is contained in policy direction from Cabinet or the Financial Management Board Secretariat. These can be found in things like the Financial Administration Manual, the Cabinet approved policies, human resources manuals, there are many vehicles that governments use to manage and set standards for government operations. So, I guess in answer to the Member's question, there are many policy instruments that the government uses to conduct business. Thousands of them. So, I do not know how I would respond to this specific question other than to say that we try to use the right vehicle for the job and the vehicle and the tools we have are legislation regulation, policy, directives, standard operating procedures and guidelines. There is a host of those that governments must adhere to.

CHAIRMAN (Mr. Dent): Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. I am aware that there are numerous areas or ways that the government operates and expends money on behalf of the government, but are there other areas where it is strictly under a record of decision? That other pieces of legislation are enacted. What I am getting at is the fact that through a record of decision, if a policy is set up in the Human Resources Manual and the Financial Administration Act, people can get their hands on that and go through it and know quite clearly what the process is and they can measure us to it, in that sense. A record of decision, as we well know, is Cabinet documents, it is a secret document, we cannot discuss it, we cannot get answers from Ministers in the House and so on. So, are there other areas where this government is operating on a record of decision to direct an act being enforced in that

sense that we find is happening right now with the Northwest Territories Development Corporation. Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. Let me perhaps speak specifically to the situation here, because I think the Member's concern seems to revolve around the public access to the guidelines that the Financial Management Board Secretariat set with the record of decision. I could stand to be corrected, but it is my understanding, which I would be happy to verify with the committee, that the contents of that record of decision, the guidelines that were issued on investment criteria for the Northwest Territories Development Corporation were something that were made very public and have been in the public domain for a number of years. I cannot recall if they are quoted in the Northwest Territories Development Corporation or other material, but it is my understanding that that information has been public from the outset and I would be happy to undertake to verify that for the committee.

With respect to the question of are there situations where the government has issued a record of decision in lieu of a regulation when a regulation was the appropriate vehicle? Not to my knowledge. In this case, it was felt by the government that the record of decision gave adequate direction to the Northwest Territories Development Corporation, but hindsight and a legal opinion suggests that perhaps the more appropriate mechanism is the regulation, so we will proceed with that.

CHAIRMAN (Mr. Dent): Thank you, Mr. Voytilla. Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. The concern I have is regarding the whole idea of job creation because in your comments it basically states that a job created directly or indirectly to a subsidiary or whatnot of the Northwest Territories Development Corporation.

I will use an example of the Fort McPherson Canvas Shop, that they used to have the ability to market their own products and then, as we all know, they changed that whole concept during this time period where they developed a new scenario regarding the wholesale group in which they market a lot of this stuff in storefront operations in Southern Canada.

I am just wondering, have you looked at these so called jobs that were created directly or indirectly because it is not directly related to the canvas shop, but indirectly it is connected through the marketing of that product. So, I am just wondering exactly, because I have not seen a major increase, especially in jobs being created in the two sectors in my riding, which is the Aklavik Fur Shop and the Fort McPherson Canvas Shop, and one of the frustrating things with the managers of those operations is that they have lost control of those operations because of not having the ability to market a product that you produce. So, have you received the information to date in regard to the jobs that were created and do you have an actual location of where these jobs were created?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I would have to answer in the negative to that question. We do not have the type of reporting on the jobs created per investment dollar that we would have anticipated from the Northwest Territories Development Corporation.

Saying that, I think that would be a line of questioning that I would hope Mr. Koe, when he appears before you later today, would be able to address to your satisfaction. He has been doing a lot of work since he took over the reins of the Northwest Territories Development Corporation and trying to deal with a lot of these outstanding requirements and measures of success. So, without trying to avoid the questioning, I think Mr. Koe would be in a better position to address those issues.

CHAIRMAN (Mr. Dent): Thank you. Mr. Krutko.

MR, KRUTKO: Thank you, Mr. Chairman. In light of the Financial Management Board Secretariat, through it's record of decision must have looked at that information when they made the decision to allocate the dollars based on the formula of $10,000 per job created and I think that point I am trying to get at is they must have known at the time where these jobs were being developed, either in Southern Canada through their storefront operations or were they developed in the communities where these subsidiaries were operating.

So I would like to know exactly, you know, is that information available and if it is, I think it should be made public so we can see exactly the relationship between these jobs that have been public funds spent either in the communities or here in Yellowknife at headquarters or were they spent in other institutions, such as the storefront operations in Southern Canada. Again I ask, through the record of decision, you must have had some ideas of where these jobs were being created.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, the Financial Management Board Secretariat's decision on the subsidy levels was based on the submissions we received annually from the Northwest Territories Development Corporation, which was their business plan, if you will, for the upcoming year. Certainly there was information in those submissions about expected employment.

What I am dealing with right now, though, is the fact that we cannot provide to you the reports from the Northwest Territories Development Corporation that would verify that the jobs were actually created in the numbers that they anticipated and that is what I am suggesting that perhaps Mr. Koe could answer better this afternoon.

Saying that, yes, the Financial Management Board Secretariat did have information about the expected employment impact of the various investments and subsidies when the business plans came forward. The expectation is that those subsidies were generating jobs in the Northwest Territories. If there was one or two jobs in the marketing area that were created outside the Northwest Territories, then that would have been disclosed as part of the business plan proposal, but the actual number of jobs in that category, I think Mr. Koe would be better to answer.

CHAIRMAN (Mr. Dent): Thank you. Mr. Krutko.

MR, KRUTKO: Thank you, Mr. Chairman. Yes, I think that we do have a real problem here where you start seeing that the subsidies to these different companies were over and above the actual cost to run a lot of these operations, where they exceeded the actual amount that was originally allocated where you are talking a couple of hundred thousand dollars, but that is the whole intention of these subsidies. It was not fairly distributed across the board, where some subsidiaries were trying to make a go of it by creating those jobs. When you see subsidiaries getting somewhere in the range of $700,000 in subsidies and at the end of the day you do not get a return on the dollar or you do not even get a stitch of paper to see exactly how these jobs are being developed and how this money is being spent, that is the concern I have.

Being the former Chairman of the Resource Committee in this government, we had presentations from the President of the Northwest Territories Development Corporation in which he had a verbal presentation for almost an hour and half with no technical data or information or reports filed with the report with the committee. Yet that was the committee that was overseeing it, yet all the decisions were made in the Financial Management Board Secretariat through records of decision. Yet as Members of the committee, we did not have access to that information, yet these monies were being expended.

Again, I would like to ask in regard to how that information was pulled, you said you received reports and whatnot from the Northwest Territories Development Corporation. Could you elaborate on exactly what reports and are those reports available?

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. Annually, the Northwest Territories Development Corporation was obligated to submit to the Financial Management Board Secretariat it's plan for the upcoming year. That plan laid out the new investments they wanted to engage in, as well as the subsidies they felt that current operations were going to require to sustain them for the year. That information was provided to and considered by the Financial Management Board Secretariat when they made their decisions to approve the investments at the subsidy levels. That information is very similar to what would have been in the Northwest Territories Development Corporation's annual reports and in the most part is in the public domain.

CHAIRMAN (Mr. Dent): Okay, thank you. Mr. Braden.

MP.. BRADEN: Thank you, Mr. Chairman. To explore and maybe expand the discussion that we have been having already on the general area of accountability and performance measurement in Chapter Five as it is addressed in the Auditor General's report, something that we have been pressing for through our committee work and the departments have been responding to in varying degrees, Mr. Chairman, are better indicators, criteria, performance measures, benchmarks, there are all sorts of words to describe what I might quote as getting value for money and being able to assess just how we are doing against our objectives. I have not been around for a full cycle yet as an MLA, but I understand that

the departments are in varying degrees doing a better job. They are working at setting these things up. It seems we are going in the right direction.

The Auditor General's report makes several references in this one chapter to three words that seem to be problematic; efficiency, effectiveness and economy, Mr. Chairman, seem to be words that are causing some difficulty because they are just too nebulous to really act as good performance measures or benchmarks.

The Auditor General indicates, especially among corporations, that when these are criteria as defined in the FAA, the Financial Administration Act, it really does not help them to come back and say how they are doing. Consequently, I think we can say that it makes our job more difficult in terms of being accountable for how we vote the money and what it is we want to achieve with them.

The question I would like to ask is given that these three words seem to be fairly significant ones in the criteria the government has set, is the Comptroller looking at defining these, setting down a good workable, usable definition of these three terms? How can we go about improving our benchmarks and our measurement system? Thank you.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. The three words are descriptive of what the accounting profession, who I think most often quotes them, believes government operations and other operations should aspire to. We should try to undertake our work with an eye to doing it as efficiently as possible, meaning that the input of labour and the other inputs that go into getting the job done should be as conservative as necessary to get the result you are trying to achieve, that we should make sure we purchase those inputs as economically as possible, and frankly those two areas have been the focus quite frequently in the past of government reporting.

The one that is perhaps the most elusive for us, because you can generally figure out how efficient you are and how economically you are achieving your goals, but effectiveness is the one that has been the most elusive. That is where organizations, particularly government organizations in the last few years, have been putting most of their emphasis. How do you define effectiveness? How do you know when a government program is achieving the goals that it was created to achieve?

That is where we have been devoting a lot of our time. I think the Member made reference to the fact that a lot of work is going into government performance measurement because that is where the definition and refinement of what we mean by effectiveness is being addressed.

The first thing we are focusing on is that our goal setting is clear, that we structure and word our goals and what we are trying to achieve in clear terms that allow for measurement, that we have targets and results that are clearly articulated. Again, are worded and constructed in a way that allows them to be measured. Then we have the

systems in place to collect the data and make sure that in fact we are achieving those targets or standards as we move towards accomplishment of the goal.

We have done a lot of work to make sure the goals we develop through the business planning process are well thought through, comprehensive and clear. Of course, that starts at the highest level with the goals set by the Legislature. This Legislature has done that with the Towards a Better Tomorrow publication. You have very clearly articulated to the government what your goals are. We then take those goals and translate those into more specific departmental goals that support the achievement of the broader objectives.

We have spent a good chunk of the summer working not just on the strategies that will be necessary to achieve those goals, but also the individual departmental goals and measures that will allow us to show to you and the public that we have made progress in carrying out your direction.

We have had numerous skill-building workshops with departmental staff. We have had over 90 participants at a senior level over the course of the early summer in workshops, trying to refine people skills and setting measures and reporting on results.

We have spent a lot of work with departments on their business plans where they lay out their goals and measures and targets. We have had peer review sessions at the end of the business planning process in August to try to make sure that we have refined goals, measures and targets.

We have published guides for departments to help them work through this exercise. I will just demonstrate here. It is called a GWNT Guide for Measuring Performance. I can leave that with your committee clerk.

We have done a lot to improve the tools we have and that we can use to define that concept of effectiveness. That is where we have devoted a lot of energy. I hope when you see the business plans with your other hats on in a few weeks, you will agree that we have improved our accountability to you substantively through that process and those efforts.

MR. CHAIRMAN: Thank you. Mr. Braden.

MR. BRADEN: Thank you, Mr. Chairman. I am interested to hear things like the workshops that have involved people from the departments and the government in building these. It is something that I have picked up from my involvement in the business sector that the initiative has to start from the top. There has to be ownership of this among the people who are responsible for carrying these things out.

One aspect of making these things work is following through and then recognizing the achievement of the performance, rewarding in some cases, but also being able to discipline and penalize when things do not go the way they should.

What kind of follow through has the government built into this kind of performance thing and really making it relevant to the people who are charged with making it work on a day to day basis? Thank you.

MR. CHAIRMAN: Thank you. Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. One of the issues that is always around performance measurement is the issue of personal accountability for achievement of the target or the goal. What we have found, and not just us but other jurisdictions have found as well, is if you put too much onus on the penalties for not achieving the goal as opposed to the importance of putting effort into attempting to measure and report results, you can end up with some substantive resistance to the process of performance measurement.

Although there are always accountability links, we have tried to emphasize that this process of setting goals and measures and reporting on results is not directed at individual discipline or reward. It is directed at trying to provide input into the decision makers as to what is working and not working, so proper corrective action can be taken and proper broad, organizational accountability can be achieved.

Our emphasis has been not on the disciplinary side of things. We are trying to encourage people that this is a good thing. They should not be frightened of performance measurement or they should not be resistant to performance measurement, that somehow we are going to use this to penalize them. This is a positive measure that they as decision makers and the people above them as decision makers need good results information to be able to make informed choices and take corrective action when it is necessary if a program is not working.

The other thing I would note is that you will very seldom be able to get a measure or, particularly in government, get a program or objective's achievement that is solely dependent on the efforts of one person or one group even. So often in government we are trying to achieve things that are impacted by broad societal developments and economic developments that are totally outside the government's scope.

For example, we may set as an objective to create an environment that will lead to a gas pipeline down the Mackenzie Valley. That is a legitimate government objective because of the benefits that would create with employment and the fiscal benefits down the road. But if that does not happen, to say the government failed miserably would be perhaps ignoring the fact that international markets, the decisions of investors and producers, the actions of the federal government, international issues did not play equally as much of a role.

I guess what I am trying to do by example is flag the issue that quite often you set targets and objectives, whether you achieve them or not is not necessarily solely on your shoulders. There always needs to be informed analysis of why a goal was or was not achieved. Our focus should be on getting the best measures we can. In fact, measuring them accurately and reporting on them, then assessing why we did or did not achieve the results that we were trying to achieve. Only as an adjunct to that should become the personal accountability that would be associated with those broader goals.

Saying that, there is not doubt that there is a direct linkage, and should be a direct linkage between the goals of the organizations and the goal of the individual working within that organization. The piece of the broader goal that you can hold an individual accountable for

has to be very well defined. That is where you go from organizational performance measurement and results reporting into individual performance appraisal. I would say that things are linked but they are quite distinct with what you are trying to achieve. I am sorry for taking so long, but it was a very interesting question and a major issue that we have to come to grips with in this whole process.

MR. CHAIRMAN: I hesitate to give you another opportunity, Mr. Braden, but...

-- Laughter

Mr. Braden.

MR. BRADEN: Thank you, Mr. Chairman. I would still like to pursue this. I know it is a shift that is perceived as especially difficult for government to be able to do in the same way that an IBM or a Nortel or something can handle, vacations or Porsches or something for excellent performance. On the other hand...

-- Interjection

-- Laughter

...or hand somebody a pink slip if things just do not go the right way. We are a different creature. I will not ask another question, Mr. Chairman, but I would like to see if you can put my name down for the next go round because this is a question I would like to put to Mr. Simpson or Mr. Thompson when I have another opportunity to see if they could offer some suggestions of experience they have seen or examples they have encountered in other public jurisdictions where performance measurements can be effective at the group or individual level. Thank you.

MR. CHAIRMAN: That might be appropriate for an in-camera session following our public sessions with the deputies today. I am not sure how appropriate it would be to put them on the spot in a situation like this. I think they may not want to talk about what they have seen that has not worked in some other jurisdictions as openly as they could if we were to talk about it in an in-camera session.

MR. BRADEN: Thank you. That is the call of the Chair, and I will respect that. Thank you, Mr. Chairman.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. I would like to get back to the issue of disbursement of funds by the DevCorp. Mr. Voytilla mentioned that the Auditor General has suggested that funds be disbursed on the basis of regulations and not on the basis of secret records of decision, specifically the one 89148.

I am wondering if he could tell us...he suggested that he thought this was a good idea. The DevCorp was looking to move this way and they were developing this now. I assume that means this is one of the comments and observations of the Auditor General that the

Financial Management Board Secretariat takes seriously. I am wondering if he could tell us if this is the first time the Auditor General has made this recommendation?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: No, it is an observation. We are acting on it to convert the guidelines to regulations. Has the Auditor General made it before? I am not aware, but I am sure Mr. Simpson could clarify.

MR. CHAIRMAN: Mr. Simpson, can you advise us on that?

MR. SIMPSON: Thank you, Mr. Chairman. I think Mr. Voytilla is correct. This has been on the table for a little while. Again, not just aimed at one particular government corporation. We have been very interested in this whole area of improving performance and performance measurement. I must confess I am somewhat encouraged by what I hear Mr. Voytilla speak of today. Certainly in the case of the DevCorp issue, that has been raised before. We do recognize that these things take time. There was a major restructuring of DevCorp a year and a half ago and all of these things have to be taken into that equation in understanding the situation in that particular corporation. Thank you.

MR. CHAIRMAN: Thank you. Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. I would like to thank Mr. Simpson for that clarification. My information is that this recommendation or this observation has been made in at least two reports prior, so I am glad to hear that we take the comments of the Auditor General seriously. It sounds like we are now moving on this.

I just have one specific question. When the ROD was imposed by the Financial Management Board Secretariat, obviously they had a definition for the word job, and that seems to be a contentious point between the Financial Management Board Secretariat and the DevCorp. I am wondering if Mr. Voytilla might tell us where the discrepancy might come in, what he feels a job means and what the DevCorp has felt a job might mean.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. The specifics of the definition of job revolves more around the idea, or the concept if you will, of a full time equivalent job. In other words, a job for a full year at the normal hours of work versus seasonal or part-time jobs and how you measure that and define that.

The specifics of that I would certainly be happy to get back to the committee on, but at this point in time I cannot recall all of the areas of comment that we provided to the DevCorp back in June. I can certainly refresh my memory on that and answer the question more fully a little later on.

MR. CHAIRMAN: We look forward to receiving that information. Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. I would like to get that information. I am just wondering if he can speak in more general terms. If the FMB requires somebody like the DevCorp to operate on the basis of an ROD and there are certain things stipulated in that ROD, my assumption would be that those are not things that are up for negotiation. If we say $10,000 for a job is the limit, we do not expect the DevCorp to come back to us and say how about $20,000? If the FMB suggests here is what a job means, I would expect that the DevCorp has to follow that and has to start counting the number of jobs created and report back to the FMB.

I am wondering if the DevCorp is reporting back the number of jobs to the FMB on their definition of a job and then comparing that with the FMB's definition, or was there no reporting at all because we could not come to some agreement as to what exactly a job was?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, the issue has been out there for some time about the definition of job. The guidelines the FMB has issued of $10,000 and $100,000 are ones that have been communicated clearly to the DevCorp. We have never had the DevCorp challenge those guidelines. I think they try to adhere to them.

Saying that, we cannot say we have had consistent reporting on those measures from the DevCorp since its inception. That is an outstanding issue between us. There have been many discussions and many pieces of correspondence back and forth about that reporting. To date, we are not receiving regular reports on that measure, nor have we received regular reports in the past. It is a concern. It is an outstanding issue. The new management of the DevCorp is working with us to resolve it.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. This is the last question on this issue. In Mr. Voytilla's opinion, the monitoring has not been there. The reporting has not been there. If I can ask him for his gut feel, does he think the DevCorp has been living up to this part of the agreement? With or without the monitoring, what is his hunch on this issue?

MR. CHAIRMAN: It is an interesting question. Mr. Voytilla, if you feel comfortable answering that, you are welcome to.

MR. VOYTILLA: Mr. Chairman, I have absolutely no evidence or information that would suggest to me that the DevCorp is doing anything other than trying to adhere to the guidelines.

MR. CHAIRMAN: Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I listened with interest to Mr. Voytilla's comments on performance measurement. This is my fifth year at the table here as an MLA. The issue of broad government strategic planning and pushing government to cooperate

between departments and come up with clear measurable goals and outcomes has been on the table every one of those years.

I had some concerns when I listened to Mr. Voytilla's comments, which I thought to a large extent were a rationalization of why things are the way they are. The issue seems to be some concern about plausible deniability about why outcomes are not met. The concern I have is that the setting, because we are concerned about outcomes and measuring and who is going to be responsible, there is a tendency to set the bar so low on outcomes so they are achievable, rather than having our reach exceed our grasp to try to do the best job we can for the people of the Northwest Territories.

Very clearly, positions do have a responsibility. Senior positions, management positions where you are paid X amount of dollars. If you are a deputy, that is a nice six-figure salary to deliver a service and to be accountable. That is part of the job.

I will look forward to the business plans to see are there clear measurable goals and outcomes. Also, to see if the accountability has improved because it was a concern to the Auditor General. It has been a concern of mine for the last five years. I do not think it has reached a satisfactory point.

Having said that, I have a specific question coming out of the Auditor General's report. There were some over-expenditures by FMB, MACA and the DevCorp without appropriate approvals and such contrary to the legislation. I would like Mr. Voytilla to indicate, given the fact that it was some time ago, has that issue been resolved so there will be no further occurrences of departments or corporations contravening the legislation? Especially the Financial Management Board Secretariat, for example, as pointed out by the Auditor General. What steps have been taken to ensure there is full compliance? Thank you.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. There are never any absolutes with respect to the potential for over-expenditures to occur. They generally occur because some unexpected event arose or something was not anticipated or not adequately provided for. There will always be a risk, no matter how good our planning system, of over-expenditures occurring.

When they do occur, it violates the Financial Administration Act. Considerable attention is spent on trying to assess why an over-expenditure did occur and corrective action is taken.

I do not know that we will ever be in a situation where we can give the Legislature or this committee absolute assurance that over-expenditures will not arise in any particular year. Unfortunately, life is not that certain for us.

Saying that, we can certainly do an awful lot to make sure that our planning is as good as we can possibly make it, that we anticipate events and that we make provisions for them and disclose them in our budget forecast. During the year, if things change or new developments arise, then we quickly as possible assess the impact of that on our spending. We then either take corrective action to avoid exceeding our budget limits or we

bring in requests for supplementary appropriations to the Legislature for the Legislature's consideration.

We have and continue to try to always improve on our planning. We have gone to, as you are aware, in the last five years multi-year planning through our multi-year business plans. We have taken steps to improve that process and improve our information systems with the intent of being better able to anticipate developments and needs.

We have introduced comprehensive environmental scans for government so we can track trends better and anticipate developments better. We have done a lot of work to emphasize to departments the need for early intervention and monitoring of their operations over the course of the year. We have what we call the expenditure management program that has financial reports coming in to the Financial Management Board Secretariat monthly, where we try to assess trends and developments.

A lot of work in the last few years has gone into improving our planning and our monitoring, we hope reducing the number of unanticipated expenditure requirements. Saying that, there are no absolutes in the planning process. Things can arise that either have been missed or simply could not have been foreseen. I hope that gives the Member the comfort he is looking for.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I would just like some more clarification on the issue. I do not think the over-expenditures are the issue. It is a question of how the over-expenditure is dealt with in relation to the systems in place, to ensure it is done by the book through supplementary appropriations, through special warrant. The instructions are clear. You are not supposed to spend money you do not have without approval.

You are telling me things come up and that is just the way the business is. We are a large organization. We are telling everybody to mind their P's and Q's and follow the system, but if it happens it happens. We will try to avoid it.

This is a very clear rule. You do not spend money you do not have approval for. If you do that, there are issues that come up. The Auditor General picks it up and we are on this table a couple of years later saying this has happened. What specific things were done other than we have gone over things and we are trying to make sure it does not happen again? It is still a black and white rule, is it not? Thank you.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Yes, it is still a black and white rule and the fact that it gets reported and scrutinized as thoroughly as it does is one of the major accountability tools we have to make sure it happens as infrequently as possible. So, if that is the question the Member is asking, that is the answer.

Saying that, if he is asking about the specifics on the cases that were reported, certainly I can speak to the over-expansion in Financial Management Board Secretariat, which

occurred as a result of housing purchases under the Employee House Purchase Plan that we had anticipated would be cash-flowed through our property agent, the Northwest Territories Housing Corporation, and then when they purchased them there was a, if you will, breakdown in communication. We did not get the supplementary appropriation into the Legislature in time for the fiscal year, so clearly we are in error there in having not sought approval for that funding on a timely basis.

In the future, we will certainly, and have, make provision for some level of purchases in the budget and where that level is exceeded then we have sought supplementary appropriations. So, we have taken corrective action in Financial Management Board Secretariat with regard to when the Employee House Purchase Plan gets activated. With respect to Municipal and Community Affairs, it was a very unique circumstance where they had staffed to a level that exceeded their budget. They had to get down very quickly to a lower level and that meant some layoffs and the cost of those layoffs, when properly accrued, exceeded their budget.

So, hopefully in the future they will have solved that problem by making sure that they do not staff beyond their approved budget. So, if that is the line of questioning that the Member is pursuing, then I am happy to go into even greater detail on the specifics.

CHAIRMAN (Mr. Dent): Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Mr. Chairman, there is an axiom I am aware of, a saying or management rule of thumb for more the management maybe, but it is easier to get forgiveness than it is permission. I just want to be very clear that as legislators authorized and mandated to provide approval and have a say in these kind of expenditures that this is an accountability issue, it is a performance measurement issue and that the positions involved with the decision making in these particular areas or whatever department decides they are going to, for whatever reason, whatever the extenuating circumstances, bypass the system, I want it really clear for me at least, I am not interested in year after year the next time we do this having to come back and we are forgiving transgressions for whatever the reason. So, that is my concern and while I appreciate and used it myself the issue of getting forgiveness rather than permission, it is a calculated risk, if it happens.

Mr. Chairman, that is my comment to Mr. Voytilla on this particular issue and I would just like to know, are these kind of things performance measurement issues when you look at positions? I know that he raised the concern that you do not want to make this negative and you want people to buy in a position way to performance measurement and it should be a positive kind of issue, but there is the downside to setting goals of if you do not reach the goal or something happens, there is also accountability. With the pay and the authority goes responsibility and accountability.

My question to Mr. Voytilla is to speak to the issue of forgiveness rather than permission and is this a performance and accountability issue that is dealt with seriously with the individuals and the departments? Thank you.

CHAIRMAN (Mr. Dent): Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I think, like the Member, I also am not a very forgiving person. I agree that you would never want to encourage or create a system where people thought that it was acceptable to not seek advance approval and, in fact, it was okay to break the rules because nobody was going to hold you accountable. That is not the system that we have in place, it is not the system we ascribe to. There should be very severe consequences of somebody deliberately breaking the rules.

Saying that, an over expenditure has to be looked at like any other development or transgression as to what caused it. Was it something that the person could have anticipated and should have and so was an issue of poor planning? Was it something that the person knew about and just chose not to act on, in which case I would say that it falls into the realm of a disciplinary circumstance. Or is it something that was truly unforeseeable and as a result should not have personal consequences for the individuals involved.

I mean, you need to look at the circumstances and make those determinations. Clearly, whenever there is an over expenditure of this nature we do look at the circumstances. There is a direct correlation in our deputy minister performance measurement system or appraisal system that does tie their performance and financial management into their appraisal, so that linkage is there and it is a very explicit one. So, if in these situations of over expenditure it was determined that they could have been avoided and then that would certainly reflect on the deputy's performance.

CHAIRMAN (Mr. Dent): Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Just a final comment and I will let others have their time at the mic. One of the issues that this speaks to in my mind is, I think as well is that, the public accounts committee process is seen to be, to this point anyway, I do not think very strong or have a lot of muscle. I think that is a process that we have to look at so there is accountability that we follow up and, Mr. Chairman, you raised this previously as well, but I think it is part of the calculated risk that people may want to take. They can come here, take a look at the heat, but at the end of the day move on.

It is two years old. Time and events march on, so I think for me, the comment to Mr. Voytilla is that I am going to be very interested over the next four years, three years in working through the Public Accounts Committee to ensure that there is accountability on these kind of issues and it is not going to be sort of a walk in the park, that we are going to give you due diligence that I would think that you would appreciate from this body. Thank you.

CHAIRMAN (Mr. Dent): Okay, thank you. Comment. Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. Following up on my question earlier, Chapter Five speaks to accountability and performance measurement and as we go through it and in hearing some of the discussions and responses made earlier to earlier questions of

accountability in talking about having to sort of look outward and we are influenced by other things as a government. That is very true, but I think if we are going to get a true measurement and see where things are going we must first look inward before looking outward. It goes back to some of the old sayings, we must practice what we preach. We can be like the ***inaudible*** and say what must be done, but practice otherwise and that in some cases is very clear that is the case that is happening here.

Even if we go back to the record of decision of 89(14)(8), so 1989 this was a decision that was made to put things into place and there were certain requirements. Having those requirements in place, and this falls forward with every other piece of legislation, having requirement in place must also require this government to exercise or put into play certain things when those requirements are not being met.

What is the process, whether it is by regulation or policy that is clearly laid out, if a department does not follow the rules that are put in front of them or a corporation, what is the result of that? Number one, through Financial Management Board Secretariat is there a decision made through the appropriate Minister, because that would be the proper flow as stated in 5.5. Now it clearly says, although territorial corporations and public agencies are distinct legal entities and have some of their own boards of directors, their mandates and powers are assigned by the Legislative Assembly and they are ultimately accountable to it through the appropriate Minister.

So, in a case like this, it would have been pointed out very early on after a record of decision was made that something is not happening here, we need this report. What is the next step? If that does not occur, is the funding reduced or pulled back at a certain point? We can put that forward to this upcoming year, if something is not met, do we say to a corporation or to a department that you have not met the requirements to put these pieces in place.

What I am saying is what is in place to in fact give accountability, as we talk about it so much nowadays. It seems to be the thing we are talking about, this new era of accountability. What is in place to ensure accountability is in fact a procedure we will follow up on, not just a myth out there that something is going to occur at some point, a big hammer will come out and knock you over, because you are not following the rules put in place?

What would normally take place? I see Financial Management Board as the central function here in the sense of accountability. It flows from there to the departments. Departments do not make it, it gets reported back, something must occur. What is the next step here? Communication had to have been made to the appropriate Minister that something was not going right.

In this one specific case, and I will not carry on on this much longer, but the DevCorp. When we saw RWED being created, that would have been, in my mind, the perfect time to say there are some functions that are not working. Now is the time to make sure, as we retool this department, that it will be done in an appropriate sense. Things will be measured and people will be accountable.

We are seeing it happen now, over the past year, because of the new group that has been put in place, but what is to prevent this from happening in any other group in the future? Thank you.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. When it comes to accountability, it is a very broad question. At what level are you going to interject that accountability? In theory, the Minister is responsible for everything that happens in his department. The deputy minister is responsible administratively for everything that happens in the department. Individual managers are responsible for what happens in their divisions.

So, there is a lot of responsibility there. If the lack of performance or the lack of adherence to the guidelines or instructions provided, if that lack of adherence is so significant as to warrant removal of the deputy or particular officer, then there is a clear disciplinary process and performance measurement process that would deal with that. That is in the purview, certainly, when it comes to Ministers, the Legislature, the deputies, of the Premier. When it comes below the deputy level, it is the responsibility of the deputy to take those actions. That chain is there.

For the Financial Management Board, it does not exercise those kinds of authorities. It is not charged with changing Ministers, changing deputies, or changing staff. That is a different process. When it comes to the specific accountability mechanisms of the Financial Management Board, it can, yes, withhold funding if it is not getting the information it needs for informed decision-making, and has done so on occasion.

The issue that always has to be weighed though is to what extent is withholding that funding holding the manager or the Minister accountable, and to what extent is it simply flowing through to a negative impact on the client? The Financial Management Board is always cognizant of the fact that its decisions with respect to funding flow down very directly to client service levels.

I think there is always a tradeoff between how you use, if you will, spending power as a tool to enforce accountability and adherence to instructions. Saying that, the Financial Management Board, in my experience, has never been forgiving, to use Mr. Miltenberger's term, of departments that do not adhere to the direction they have been given. Their tools, sometimes to get prompt adherence, are limited.

MR. CHAIRMAN: Thank you, Mr. Voytilla. Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. With all of this discussion and things that are being put in place, as we speak is the phrase to use here. As you said earlier, there is ongoing work to deal with some of the concerns that were raised in the past. Do we see that being applied to other groups as well that the government deals with? Other corporations? We have a number of them that we are looking at, and government is looking at on a daily basis.

As to what is there in the future, we talk again of accountability. Is it going to be clearly laid out to the key people in key positions whether they be deputies, or assistant deputies. On the political side, I guess this is something we have to take up as Members of the Assembly. Is it going to be laid out clearly enough that we will not be able to swim in the gray area, so to speak. To say, "well, here is an area, and we are impacted by others".

A lot of the discussions, answers and responses that were laid out here could find us swimming for quite some time before we get to some solid ground, in that sense. I think we need to make it very clear that anyone going into an area of senior responsibility, that is one of the first things laid out. Here is what you will be measured on.

Yes, we need to look at the positive outcomes, but from time to time we have to look at the punitive side of it and show people that if things are going to be overlooked purposely, then there is going to be a result, and not just a slap on the hand. Is what you are developing and putting in place going to be clear enough? So we will get rid of some of the gray area. I know we cannot do it 100 percent, but hopefully we will get the majority of it.

MR. CHAIRMAN: Thank you. Just before I go to Mr. Voytilla, I would like to remind Members of the committee and Mr. Voytilla that we have another witness scheduled for 11:00 a.m. and I would expect that committee members would like to have a short break between concluding with Mr. Voytilla and starting with Mr. Doan. If we could keep our questions and answers relatively short, we only have 20 more minutes in order to keep Mr. Voytilla in the hot seat. Of course, we can bring him back, but for this morning we only have 20 more minutes with him. Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. In the area of organizational performance, which is what I was speaking to earlier, the measures, goals, business plans, that process. I think we have made some major progress and I hope we can demonstrate that to you during the review of the business plans. Both from tools that will make it easier to measure results the government is achieving government-wide, and also departmentally.

Will there be greater performance measurement capability and accountability for results as a result of that process? I think yes. Saying that, you will always have to interpret the results to determine whether there was a failure on the part of the government, a department, or other events that came into play.

With respect to individual performance measurement, I do want to make it clear that there is a very good performance measurement appraisal system in place in the government which is linked to our departmental goals, and takes other factors into account as well. As a deputy, for instance, I have, annually, very explicit goals and objectives that are laid out for me by my Minister and the Premier that I am measured on. Then I am measured on how well I do as a manager in areas of financial management, human resource management, knowledge management, and other aspects. They are clear criteria that are used to evaluate me, and a number of people participate in that evaluation. There are consequences if I do not achieve a satisfactory level of performance.

So, when it comes to individual performance appraisals, there is a good system in the government. I think it is clear. I think I certainly speak as a deputy who feels he is held accountable by that process. Saying that, I also appreciate the fact that the results that are achieved, and whether or not I was able to realize certain objectives that were laid out for me, I appreciate the fact that the Premier and the Minister take into account all of the circumstances that led either to the accomplishment or failure to meet a particular target or goal. I feel they do that quite effectively.

I just did not want to leave the impression with the committee that there is not a good appraisal process for individuals already in place. If we have an area that needs improvement, it is that area that allows for the government to be accountable to the Legislature and the public on the performance of the government and individual departments in achieving their program goals.

I think that is where we have made some strides this summer and the government hopes to be able to demonstrate that to you during the business plan review process and also in the budget process itself when we consider the budget in the Legislature.

MR. CHAIRMAN: Thank you. Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. On things that were outlined in the report, they talk about establishing regulations. To date, that has not happened. There is talk about collecting information on jobs that were created through the Development Corporation and how that money was expended and where the jobs were. Also, the area of ensuring that companies or corporations of this government did not have the ability to overspend its dollars without the approval of the Financial Management Board. That has not happened.

With all of these things that have taken place, you mention change. I am wondering, because there are no regulations, reporting requirements on how these jobs were created or where the money was spent, along with the ability of corporations to make these large expenditures without the approval of Financial Management Board, has there been any constructive changes to the Financial Administration Act? To avoid these large expenditures by senior bureaucrats within the government so we do not find ourselves in a situation where these expenditures are made without the approval of Financial Management Board.

Also, the misuse of Records of Decisions. Why was the business planning process not used when you identified jobs that were going to be created through the planning process? Or even to come forth to the House with supplementary appropriations to access dollars for job creation of $10,000 per job. All of the processes were there, but it seems like they were not being used, or the regulations and legislation was not strong enough to ensure the protection was there to avoid what has happened.

Because of all of these gray areas, you mentioned that change has taken place through the planning process, but my concern is, is that enough? Is it enough to avoid having this happen again? Are we going to put more restrictions through the Financial Administration

Act so that it stops people from being able to make these large expenditures up to a certain point?

I know that through the Deficit Elimination Act that we had a set limit, and we changed that a number of years ago. Again, do we have to go back to that restriction? At the time when all of this happened, that was part of the Financial Administration Act, but it still happened. Have you looked at ensuring, because of all of these gray areas, regulations are in place and that the Financial Administration Act has more teeth? That the collection of information is current? So we do not wait three or four years down the road before we get this information after the decision has been made through the Financial Administration Act.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I think there were a number of parts to that question. I will try to address them. First, the Northwest Territories Development Corporation did seek advance approval from the Financial Management Board before it made its expenditures. It did have authority to make the expenditures that it made. Its budget had been approved by the Legislature so there was no violation of the FAA in the making of the expenditures of the Development Corporation.

Where they have failed is in reporting back whether or not they adhered to the guidelines that the subsidies they provide to any particular guideline did not exceed $10,000 per job. The spending they have done was properly approved, it is their accountability that is, to date, still lacking on whether or not they achieved that maximum of a $10,000 subsidy per job. So that is the question.

I think the answer to that is no, we do not yet have the reporting that we would like. Whether that is by ROD or regulation is probably not going to change that fact. It is important now that we work with the Development Corporation to get all of the issues out of the way and hold the new management accountable to properly report on jobs created, and adherence to the guidelines.

There has been a change in management, and I think the Auditor General made reference to that before. We are encouraged by the effort that the new management is putting into this matter, and we think we will have it resolved shortly and be properly accountable. I hope that answers part of the question.

With respect to the FAA changes to deal with over-expenditures. The FAA is pretty comprehensive already. It says "Thou shalt not". You cannot get much more definitive than that. I think we have talked a lot about consequences here, and the fact that where there is an over-expenditure, and it is demonstrated and assessed to be something that could have been foreseen, was known about but there was simply no action, then that is something that translates very directly into the performance appraisal of the deputy involved. There is a consequence. I do not know that there would be value in further changing the FAA, it is pretty clear and explicit.

With respect to the quantum, or the amount of over-expenditure, I would note that although no over-expenditure is, if you will, acceptable, the actual amount of over-expenditure in relation to the budget, and at this point in time we are looking at a $1.2 billion budget, the over-expenditures are in the vicinity of a couple of million dollars, so it is not a large amount of over-expenditures. I am not trying to diminish the seriousness that we treat those over-expenditures with, but I would put in the scheme of things, I guess I am relived that the amount of over-expenditures was as small as they were.

The emphasis that we are putting now, and in the future, is on improving our planning and our monitoring systems as we discussed earlier to try to avoid any over-expenditures. That is our target. No over-expenditures. There has even been a few years where we achieved that, but from time to time events do occur that violate the Financial Administration Act in that regard.

MR. CHAIRMAN: Thank you. I can tell, Mr. Voytilla, that you are enjoying this so much that you want to come back for another round, by the length of your answer.

-- Laughter

I would point out that in your response to the Member you suggested that there was a problem with reporting more than anything else, rather than compliance with authority. The Auditor General points out that the expenditures on Northern Forest Products was $740,000 or so, in excess of that approved by the Financial Management Board which would, I think, call into question whether or not there was authority for that expenditure, and then whether or not there was compliance with that authority. Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. On that specific one, there was very clearly, in our view, spending made that was not in compliance. They were given limits for subsidies by the Financial Management Board and they exceeded them. There was very quick action taken on that by the board once that became known to us. That was dealt with.

Like I said, we hope with the new management that those are situations that will not occur again. We hope we now have a very clear set of rules that are well understood by the Development Corporation.

MR. CHAIRMAN: Thank you. Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. In the context of the history of this Corporation, it has spent something like $50 million in the last 11 years. Over and above that, I wonder exactly what is the liability to this government, as there has been share equity put into a lot of these joint venture companies. There are actual guarantees on loans by the Development Corporation, there are joint ventures in place.

Have you looked at the actual liability to this government regarding the investments made through this Corporation and the involvement they have with other companies?

Also, through our subsidiaries. We have a lot of assets, such as buildings, that have to be paid down over a period of time, which is a liability to the subsidiaries, but also to this

government. Have you looked at completing an assessment or evaluation of the actual liability to this government based on the investments made to date, as well as through our involvement in loans or share equity in other companies? Have you looked at that, or are you going to look at that?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. Yes, that is looked at each year. Those issues are assessed when the Development Corporation prepares its financial statements. Those financial statements are audited by the Auditor General, looking for those issues.

We generally, if there is an investment that the Development Corporation has made that looks like it is not going to be worth the original value there are provisions made. If there are loans that look like they are not going to be collected there are provisions made for bad debts. If there are liabilities that cannot be quantified, they are disclosed as contingent liabilities, so the process of coming up with audited financial statements each year is intended to address those issues of liability that the Member is raising.

To the extent that we have comfort in the financial statements and the audit report, I think we can say that those have been addressed.

MR. CHAIRMAN: Thank you. For the committee, the time is such that I would recommend a break now. We have another witness for RWED scheduled for 11:00 a.m. Mr. Voytilla, are you available later this afternoon?

MR. VOYTILLA: Mr. Chairman, I was planning on being here with the committee for the duration of the proceedings, so I can certainly come back at your behest.

MR. CHAIRMAN: I have a number of people on the list who had questions that they wished to ask you, and I think there are some other issues that we need to get into. We have Mr. Doan scheduled for 11:00 a.m. and Mr. Koe for 1:30, so I would expect that sometime after 3:00 p.m. we would hopefully get back to resuming our session with you. So, we will take a ten minute recess.

-- ADJOURNMENT

Northwest Territories Legislative Assembly

Standing Committee on Accountability and Oversight

Wednesday, September 27th, 2000

Public Review of the Auditor General's Report on Other Matters

Resources, Wildlife and Economic Development

Standing Committee on Accountability and Oversight

MEMBERS PRESENT

Mr. Dent (Chairman)

Mr. Bell, Mr. Miltenberger, Mr. Krutko, Mr. Roland, Mr. Delorey, Mr. Lafferty, Mr. McLeod, Mr. Braden

WITNESSES

Mr. Roger Simpson, Edmonton Office of the Auditor General

Mr. Shawn Vincent, Edmonton Office of the Auditor General

Mr. Ron Thompson, Ottawa Office of the Auditor General

Mr. Lew Voytilla, Comptroller General, Financial Management Board Secretariat

Mr. John Carter, Assistant Comptroller General, Financial Management Board Secretariat

Mr. John Bayly, Principal Secretary

Mr. Doug Doan, Assistant Deputy Minister, Resources, Wildlife and Economic Development

Mr. Afzal Currimbhoy, Chief Executive Officer, Business Credit Corporation

ASSEMBLY STAFF

Mr. Doug Schauerte, Deputy Clerk

Ms. Laurell Graf, Research

STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT

Public Review of the Auditor General's Report

Department of Resources, Wildlife, and Economic Development

Wednesday, September 27, 2000

CHAIRMAN (Mr. Charles Dent): I would like to call the meeting back to order and welcome Mr. Doug Doan from Resources, Wildlife and Economic Development. Mr. Doan, I understand you have some opening comments. Perhaps you could introduce your assistant and get into your opening comments, please.

MR. DOAN: Thank you, Mr. Chairman. On my left I have Afzal Currimbhoy, who is the Chief Executive Officer of the Business Credit Corporation. Mr. Chairman, the Auditor General of Canada, in conjunction with the audit of the accounts and financial transactions of the Government of the Northwest Territories, has issued a report on other matters in which issues for Resources, Wildlife and Economic Development were first there were cases observed where the business proposal received funding for more than one government program. Multiple dipping makes the overall financial risk to the government greater than funding from one program. When more than one department or corporation supplies funds, each remains responsible for only its portion of the monies. There is no coordination. No department or corporation assumes a lead role in monitoring the government's investment in a project. Significant weaknesses in loan approval and management resulted in losses of over $3 million to the government.

The second issue raised by the Auditor General was that the Auditor General recommended in 1993 that the Business Credit Corporation, the Northwest Territories Development Corporation and the department develop guidelines for determining if an applicant's past is relative to the current application. The Auditor General recommended in it's original report that the department, Business Credit Corporation and the Northwest Territories Development Corporation may have program overlaps and should clarify their roles to prevent duplication.

In responding to the first observation it must be acknowledged that in fulfilling the collective mandates of the department and its related agencies, that is of stimulating economic development in order to create jobs, risks are taken and occasionally different programs are accessed in order to raise the appropriate capital. Project frequently require a mix of equity capital, patient capital and loan capital. The reality of the operating environment in the North is that of a small population size, high cost of infrastructure, low education levels, low incomes and limited availability of investment capital. Governments are called upon to fill the gaps when supporting new ventures, especially in the area of providing capital. Due to the high infrastructure and start up costs faced by private sector businesses and the risks associated with operating in small Northern communities, commercial lending institutions are less prone to

venture into providing financing to meet the needs of Northern business. When risks are taken, loan losses occasionally result and experiences gained. The department and its agencies have learned valuable lessons from these past experiences and have initiated changes to try and minimize losses of this nature occurring in the future.

To illustrate the developmental nature of the lending undertaken by the Business Credit Corporation, it may be helpful to consider the following. One of the conventional measures of risk taken by a lending institution is allowances for loan losses, which is the percentage of receivables which are considered doubtful in terms of future collection. The chartered bank operates with an allowance for loan losses of .03 percent. The Business Development Bank of Canada, which on a National basis enjoys a similar mandate, operates with an allowance for loan losses of 5.6 percent. The Alberta Opportunity Corporation, strictly in terms of their lending portfolio, operates with an allowance for loan losses of 8.36 percent. The Saskatchewan Opportunity Corporation similarly operates with an allowance for loan losses of 18.76 percent. The Manitoba Community Economic Development Fund, which services small business in the Northern part of the province, operates with an allowance for loan losses of 20.53 percent. The Business Credit Corporation in 1999 operated with an allowance for loan losses of 14.73 percent.

Notwithstanding the developmental nature of our work, we do recognize the need for improved monitoring for our loan and contribution clients. Our deputy minister has recently established a project team which is composed of departmental officials from the regions and from headquarters and this small group has been tasked to review this issue and provide some practical recommendations, bottom up, to try and address the issue of improving loan monitoring and administration.

In the case of the Auditor General's 1993 recommendation, guidelines have been developed as recommended and have been incorporated into the Business Credit Corporation operating procedures and the department's application form. Recently, the Minister of Resources, Wildlife and Economic Development gave instructions for the formation of a committee to review the business programs offered by Resources, Wildlife and Economic Development. This committee actually had it's first meeting two weeks ago and it is composed of two individuals from the Board of the Northwest Territories Development Corporation, two individuals from the Board of the Business Credit Corporation, two individuals from the various boards of Community Futures and two departmental officials. The committee is expected to present its report to the Minister by April of 2001.

The environment within which we operate is continually changing and the hope is that through streamlining the delivery of our programs we will make them more cost efficient and accessible. Thank you.

MR. CHAIRMAN: Thank you, Mr. Doan. Could we have our staff get a copy of your comments and make copies to hand out to Members, please. Questions from Members? Mr. Bell.

MR. BELL: Thank you. I have a couple of questions for Mr. Doan. Specifically, the Auditor General's Chapter Eight, Other Audit Observations and 8.8, Monitoring Investments. The

Auditor General did examine Resources, Wildlife and Economic Development, directly or indirectly, $3 million in loan losses and one of the issues pointed to section 15 of the Northwest Territories Business Credit Corporation and the fact that it prohibits disclosure of details pertaining to loans made. I assume that the department would argue that confidentiality is important here in order to protect a business' competitive advantage, but we have to somehow weigh that against public accountability. I wonder if Mr. Doan can tell us if maintaining this confidentiality seems acceptable given that we have sustained heavy loan defaults?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Yes, Mr. Chairman. With respect to the Auditor General's note of $3 million, I think what I would like to do is provide a little bit of context to that, if I could. It does go a little bit broader than the question that has been asked. That $3 million is comprised of three separate situations. Out of the $3 million, well in excess of $2 million is actually... first of all, it is not a loan as such. It was contribution funding under the 1996 economic development agreement. The reason that context is somewhat important to me is that economic development agreement was called Foundations for the Future and the purpose of the initiatives under that agreement was not to provide funding to any individual business but rather to invest in infrastructure and other initiatives which benefited a large group of people.

Now in the case of this $2 million, the $2 million from the economic development agreement was used to construct an abattoir facility in Hay River. That facility had been identified in a regional economic strategy as infrastructure which was considered necessary for the development of an agricultural sector. Now, as it turned out through a number of events, the abattoir was not a successful venture and the department acknowledges that, but I think it is important to note that the initiative was in fact an initiative under the federal-territorial economic development agreement. The funds in question were contribution funds. They were in fact invested in infrastructure which continues to exist to this day. In fact, the government has recently approved the sale of that facility to a company in that region, which enjoys the ownership of the Hay River Band as well as some other bands in the area, and the infrastructure is now being used, as it were, for the foundation for a number of ventures in the servicing of oil and gas.

I guess what I am suggesting is that technically this is not a write-off, although the original initiative was not entirely successful, but fortunately I believe there is an opportunity for this infrastructure to still provide benefits to the North. Certainly the initiative that is underway, the Dene Directional's initiative, is considered to have merit and to have the opportunity to provide a good number of jobs in the South Slave region. That is one that is in excess of $2 million.

The other two particular situations, one is the Northern Pork Operation, which is in fact a Business Credit Corporation loan and a loan which has not been written off at this point in time. In fact, there are a number of issues. It well may be the case that the department will face a write-off in the future, but at this particular point in time that is not the situation.

The reason, going back more directly to the question that was raised, the reason that normally it is not good practice to discuss the details of a loan situation is you could prejudice the

opportunity to pursue legal action against the client. So, the information, once any loan situation, as a matter of normal practice, once it is in the hands of solicitors, it is the practice of the department not to intervene further in discussion with the client and to let the matter proceed through legal channels. That is normal practice.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Thank you. I would like to thank Mr. Doan for providing some specifics on a couple of these case files. I think one of the things that is frustrating for us as a committee and frustrating for the public is that we do not typically see the details of loans and why loans were authorized, how loans were made, how risky is risky. The Auditor General sees these things, yet we do not. So I can understand and respect the fact that we have to be cognizant of the fact that there may be legal action pursued against someone that the department has loaned money to but I think in weighing that against public accountability, we have to ask ourselves, how long before a file is stale? I mean, should there not be a statute of limitations for release of the information in these files? Two years, five years, or ten years? At some point the public has to see the details of some of these loans. I am wondering why we just have this sort of blanket section 15 which says no disclosure of details. We have to look at the confidentiality here. Should there not be some sort of statute of limitations on the release of this information?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Yes, Mr. Chairman. All loans eventually come to conclusion. They are either repaid in the normal course of events, because of our developmental role, more likely they are repaid, but they are repaid in an extended period of time with some concessions being granted. But those that are not repaid, that ultimately we do not receive repayment on, eventually all are tabled in the Legislative Assembly and they are tabled in one of two formats. The first is as a write-off submission which would be approved in the House and the second would be a case of, and it is much more rare, but there are circumstances where the debt is actually forgiven and that as well requires approval in the House.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Thank you. I would just like to say that at that point, when we do see this come through the House and we see that we are writing off a certain debt, you have mentioned that you are trying to improve monitoring and through these loan losses obviously risks were taken, we are learning from these things. I think it would be helpful for us to see the details of specific files to understand why a loan was granted. What was the goal here? What was the idea? What were some of the things set out at the beginning that we thought would be achieved by lending the money? So, after the fact, when we see the write-off, that is fine, but I do not know what this committee can learn from seeing a paragraph description of a loan write-off and not really understanding why the loan was made in the first place. So I am asking if after the fact, and we are writing these things off, should more details not be given on the file and why the loan was granted in the first place?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: There is, notwithstanding the fact that, I guess, a loan is written off or forgiven, for that matter, a lot of the information that is provided to the department with a loan submission is provided in confidence. In fact, the department does not enjoy the right to investigate an individual's credit past until they have a signed application from the client which effectively authorizes the department or officials to make appropriate investigations. Similarly, the release of information other than in the ordinary course of business is something which is generally only undertaken with the expressed consent of the borrower.

MR. CHAIRMAN: Mr. Bell, final supplementary.

MR. BELL: Last question. Anywhere that this government loans money through Resources, Wildlife and Economic Development and its various different arms, is there ever any situation where a client is asked to sign a disclosure statement saying that this information may become public at some point? I would assume there is, but I do not know.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Mr. Chairman, there is not a blanket statement of that nature that any client is asked to sign. If in fact there is an inquiry on a particular account, the department will approach the client and seek their consent to share information, but it is not done on a blanket basis.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I will point out again, just for the record, since Mr. Doan was not here earlier, that Resources, Wildlife and Economic Development is the focus of a considerable amount of time and text in the Auditor General's report and it is a source of concerted interest to the Ordinary Members. It is unfortunate that we are not going to see the value for money audit that was requested because they are being blocked by Cabinet, because there are a lot of ongoing issues here that I think need looking at.

I would like to speak specifically to the issue of multiple dipping. It has been identified clearly as an issue with the Auditor General. In your comments you justify the issue of multiple dipping. The concern I have, of course, and that the Auditor General has is that you will have individuals using government money to leverage more government money. Going from the Business Development Fund to the Northwest Territories Development Corporation to the Business Credit Corporation. The question is that this does not seem to be an issue for the department, yet it is an issue for the Auditor General. The one comment you make is that you have learned valuable lessons from past experiences and have initiated changes to minimize losses.

What I would like is if you could speak specifically to what steps are being taken to ensure there is coordination between the Business Development Fund, the Resources, Wildlife and Economic Development staff, the Business Credit Corporation staff and the Northwest Territories Development Corporation staff so that they can, in fact, share information, do their appropriate case planning so that there is not multiple dipping. The right hand knows what the

left hand is doing. That the issue of efficiency, effectiveness and economics are addressed. Thank you.

MR. CHAIRMAN: Thank you. Mr. Doan.

MR. DOAN: Yes, Mr. Chairman. Again, I would like to respond by giving a little bit of context, if I might. The programs in general, and there are not that many, although there arguably could be too many, but the programs themselves are each directed at doing a specific undertaking. There is a small business grant program, which is less than $5,000 total in a lifetime. Typically the grants can be three $500. They are designed with the needs of some of the people in the very small communities. A carver who needs some tools so he can do some carving. That program is very specifically aimed at that group.

The Business Credit Corporation provides loans basically taking on risks that may go a little bit beyond the scope of the chartered banks and the normal lending institutions. Their loans are all repayable. The only instance when a loan is not repayable is when it basically requires a write-off or forgiveness. They are loans. They are all interest bearing. In many instances the amount of loans, the size of the loans we are doing, when you get to a community where there is no bank, there is no cost benefit for a chartered bank to fly somebody in to make a small loan.

In those communities, the Business Credit Corporation is basically the main source of financing, even for projects which might not be considered terribly risky. What we often find in those communities, even though we are prepared to look at a loan, the size of the loan that would be required to fund a particular project is greater than the project can afford to pay. In small communities, the opportunity for people to raise equity, particularly for first time starting out in business, in our small communities the opportunity for people to raise equity is very difficult.

The intent and part of the plan in fact when we introduced the Business Development Fund, is that when we looked at a project of this nature, and I am putting this in my terms, I guess, but as an Economic Development Officer, we would say how much the project could afford to carry in debt and the equity, the Business Development Fund within the criteria outlined would be used to backfill that. So in the instance of a project that, just for argument's sake, required a debt of $200,000. If it looked like, based on the projections and what not, that particular business would be unable to repay a loan of $200,000 in a reasonable period of time given the security and what not, that is the instance where, if there was employment generated, we would be prepared to provide a contribution which would lower the amount of the loan to what was considered a more acceptable risk level.

So I guess I am saying in most situations, not all, but in most situations, by design the intent was that the Business Credit Corporation and the Business Development Fund would be used in tandem in most small business situations. The department has been extremely reluctant to use contribution funding as stand alone financing for a project. That is generally not done. The only instance where it might be done is more an instance of socio-economic benefit rather than one which is an individual business.

In terms of what we have done, and we must keep in mind that some of these comments go back in time as far as 1993, so a great deal has changed, but at the current time, one of the best safeguards we have is decentralization so that the individual that is approving the loan at the regional level is the same person that is doing the Business Development Fund. It is a single application. There are not two applications going in two different directions. There is one application with both needs identified on it and one business plan.

So in the case of those two programs, I would argue it is not stacking. It is by design. They were doing as they are intended to do. There are occasions, however, I guess there are occasions when perhaps these normal procedures may be circumvented for some reason. I would acknowledge that.

In terms of the Northwest Territories Development Corporation, subsequent to the 1993 audit, there were regular meetings with the Northwest Territories Development Corporation. We in fact share the same application form, or at least we designed a single application form that would be used for the Northwest Territories Development Corporation. Meetings between the Northwest Territories Development Corporation and the department were regularized I think in about 1994. Certainly in the last several years, the President of the Northwest Territories Development Corporation and the Chief Executive Officer of the Business Credit Corporation are included in all senior management meetings. So the level of dialogue on initiatives and projects has in fact increased.

MR. CHAIRMAN: Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. It may make sense to Mr. Doan, but to me there are questions. You have one department. You have the Business Development Fund. You have the Business Credit Corporation. You have the Northwest Territories Development Corporation and now you are layering on Community Futures. You have little pots of money of various sizes scattered around. I know just from constituents I have talked to that there is no such thing as one stop shopping. It is a very frustrating situation.

You also have the issue of infrastructure costs, money spent on running all these different operations as opposed to an efficient, effective, possibly umbrella operation that would consolidate and coordinate. I would just like you to explain...I am interested in planning. Does the Resources, Wildlife and Economic Development staff, Business Credit Corporation and Northwest Territories Development Corporation regularly compare notes so that the issue of, well, it may be okay to double dip, is it okay to multiple dip?

You talk about regularized meetings. I am not sure what that means and what is dialogue as opposed to they regularly dialogue on issues. In the planning context, what does that mean? When we look at business plans, is it going to be demonstrated that there is in fact a straight line relationship? It is not just we will get together over coffee or when we have senior management meetings we will be in the same room, but as an operational condition and guideline that we actually do these concrete planning exercises to make sure that in fact the pieces are linked? Thank you.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: First of all, Mr. Chairman, I did not mean to give the impression that the number of programs was a good thing. We have conducted a study called Access to Capital which looked at exactly the need to consolidate some of this financial activity into a more coordinated approach. That particular document actually recommended that the Community Futures Approach be streamlined with the Business Credit Corporation and we have made some in-roads in that area. I believe I mentioned as well in my opening remarks that one of the recommendations from the Economic Strategy Panel was exactly that we take a look at consolidating these many small programs into one streamlined operation which meets the needs of businesses in a more efficient manner. So I did not mean to suggest that the world was wonderful.

In terms of the multiple dipping, certainly in today's environment I tried to explain that the contribution and application is a single process. So there definitely is coordination involved in that. The area where potentially a lack of coordination could occur would be in terms of what the department is doing versus what the Northwest Territories Development Corporation is doing. However, the Northwest Territories Development Corporation, any new investments that they undertake are to be outlined in their business plan, which is approved along with the department's business plan every year. So that business plan again is something that is shared with the department. Certainly there would be a knowledge of any new initiatives being undertaken.

MR. CHAIRMAN: Thank you, Mr. Doan. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Could Mr. Doan indicate then whether in fact the department has accepted the recommendation to consolidate the Northwest Territories Development Corporation, Business Development Fund, Business Credit Corporation and Community Futures Program?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Mr. Chairman, the Minister has appointed this task force that I referenced with individuals from each of the boards of the two Crown corporations, two private sector board members from the Community Futures organizations and two senior department officials, and he has tasked them to examine this issue and to come back to him with recommendations for a coordinated, singular approach to delivery of departmental programs which meet regional needs. That action has been taken. The people have been appointed. Their first meeting has been held and they have been asked to try to provide their recommendations before the end of the fiscal year.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: Is that yes?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: I cannot commit...

-- Portion not recorded

MR. DOAN: ...is that, certainly a study is being conducted to do exactly what we are talking about. I would have to expect that if a sensible, practical, implemental, doable, recommendation is made, I would certainly expect that yes, it would come about.

MR. CHAIRMAN: Thank you. Mr. Delorey.

MR. DELOREY: Thank you, Mr. Chairman. I was just wondering if there was any risk scale attached to any business development when money is allocated for business development, whether it be in direct loan or in contributions as you may call it and certain projects. You mentioned specifically the abattoir in Hay River. When that program was put in place and that development was authorized, was there a risk scale factor put into that as to what the chances were of that development being a success?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Mr. Chairman, to the best of my knowledge, the approach that has been taken to date by Resources, Wildlife and Economic Development and the Government of the Northwest Territories has been to assess each proposal or application on its independent merits. There has been no effort made to develop a sort of risk scale as such. Now, the only exception to that, and it is a very minor one, is that at the recommendation of the Financial Management Board Secretariat, we put together a proposal which would see two interest rates which would be...in the past, our interest rate on Business Credit Corporation loans, there was a single rate that was used across the board. We have recently received approval which provides for a conventional rate and a rate which is for situations that are considered somewhat more risky.

The difference between those two rates is a very nominal amount because part of the issue becomes how much of that risk...we do not want to penalize people in the very small communities. Frankly, the risk is higher in the very small communities. So the circumstances when this risk factor applies on Business Credit Corporation loans, it is a defined situation where for example a loan where we are a second mortgage instead of a first mortgage, we would charge this premium. However, it is still not based on an overall risk framework such as I think that you mean.

MR. CHAIRMAN: Thank you. Mr. Delorey.

MR. DELOREY: Thank you, Mr. Chairman. Again, specifically because you mentioned the abattoir in Hay River, I was wondering if there was any internal searching done between different departments on a project such as that? Because there are definitely people in the area that we are concerned you mentioned that it was designed for agriculture as such. There are a lot of people in agriculture that will say that the abattoir was built and then the study was done after the abattoir was built, and the reason it did not succeed was because of the lack of

this government putting policies in place, such as an agricultural policy, and allowing agriculture to develop in the Northwest Territories to make that a successful project.

You mentioned again that now it has been approved to the sale of Dene Directional. You know, there are people out there saying that unless the government changes policies as far as oil and gas development in the Northwest Territories and gets some process in line that allows development to happen that turning the abattoir over to the oil and gas sector is not going to succeed either. So, is the government doing something within departments to get together to allow these projects to be successful so that there is no money lost in it?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: I am not sure that I can satisfactorily answer that question. Certainly the abattoir was planned as part of a regional strategy. My understanding was that the initial plan made one assumption, which was rather presumptuous at the time and that was the assumption that by making the abattoir available at a reasonable rent, they would attract a private sector operator who had the skills, the background, the experience to operate an abattoir. In fact, when the abattoir opened, there was no such private sector operator in the works and in order to try and get operations established, because there was a pork operation in the area, in order to try and get the abattoir operating, a contract was let with the Northwest Territories Development Corporation to operate the abattoir on behalf of the government.

Unfortunately, the reality of the situation was the cost of the Northwest Territories Development Corporation operating the abattoir was excessive and was not a cost that the department could absorb on any long-term basis. So after a year and a bit, the Northwest Territories Development Corporation basically pulled out and the abattoir was closed. Efforts did continue for quite some time to try and locate a private sector operator who would bring to the task the necessary credentials and experience and what not and that we could perhaps make some kind of deal to work with local interests. In the end, that effort was not successful.

I know that probably does not provide the full response that you are looking for, but that is probably the best I can do. I can assure you that when officials, you know, it is a banker's favorite line, when they made the loan it was a good loan. People do not generally approve loans or contributions if they honestly believe that that particular business is going to fail, but things do happen.

MR. CHAIRMAN: Thank you. Mr. Delorey.

MR. DELOREY: Thank you, Mr. Chairman. Yes, I guess I was just kind of trying to find out if there has been a different approach to projects as far as from within departments to get together with different departments to make sure that there are policies in place that are going to allow that to succeed.

You mentioned as well that sale of the abattoir has been approved. I am just wondering is that going to change the figure as far as a $3 million loss or $2 million loss with regard to the

abattoir to the government? What figure could you say the abattoir is being sold for that the money is coming back to the government?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: I believe the sale of the abattoir was undertaken at the tax roll value, which is considerably less than the number we are talking about here and, frankly, I am not sure exactly what the number is.

I guess the point that I would argue is that the abattoir initially was not a loan. It was not a Northwest Territories Development Corporation investment. The abattoir was funded through a contribution made by this government. That contribution was not repayable. The anticipation was that that contribution would result in job creation. I guess what I am suggesting to you is the $2 million has not been written off. There is no write-off anywhere. It has not been written off. That $2 million is tied up in a capital asset which has been sold for a nominal amount of money, but where the intention is still that that investment will generate employment opportunities.

One other point, and I realize it is technical, but that $2 million, 70 percent of that is from the Federal Government, 30 percent is from the Government of the Northwest Territories. Again, I am not suggesting that it was a wise investment. I guess what I am saying is the file is not quite closed yet.

MR. CHAIRMAN: You say there is no write-off, but I believe that we are looking later this week in one of the acts there is a write-off of some money there. I know there is going to be some write-down in terms of the value there. Just quickly, is there...the sale for a nominal value, is that for real money or is that Business Development Funding or Business Credit Corporation funding that it was sold for? Was that real money?

MR. DOAN: That was real money, Mr. Chairman.

MR. CHAIRMAN: Mr. Delorey. Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. This line of questioning ties into a lot of earlier questions we had regarding monitoring and accountability and knowing that as we have devolved things as a government to regions and, as we heard, Community Futures now, I believe at one time the department used to do all of that. The majority of the lending and contributions used to be done in-house. Over the years, piece by piece has been devolved out.

That goes back to the idea of monitoring and the more organizations we have out there giving dollars away leaves a greater job to try and complete the monitoring. This was quite clearly brought out in a number of questions this morning.

My question is, when the department is looking at these areas, we had Mr. Delorey's question on our abattoir there...there are other questions on the Northwest Territories Development Corporation side, but the department has basically control, in a sense, of how these dollars

continue to flow if these groups are not providing the necessary documents to show the department is monitoring it. If the department picks up the fact that these organizations are late or slow in bringing forward these reports, what is the process of reporting? Definitely you would be going to the Minister with something, to give the Minister a heads-up to try to rectify this if it is felt that the communication system was not working appropriately from the deputy minister level down. So is there a reporting structure forward? Thank you.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Yes, there is in fact a reporting structure and a monitoring protocol, if you like. It becomes a little bit confusing because it is not consistent in every region in terms of how the system works. By that, I would offer that the financial, the business development function is presently delivered through two main streams. One is through the department's regional office, through Government of the Northwest Territories staff and the other is through the Community Futures Program, which operates autonomously from the Government of the Northwest Territories, or somewhat autonomously. In some regions, in Inuvik for example, it would be one of them in fact, the two organizations actually work together.

So again, a business development project, whether it is funded now...Community Futures, I should clarify. Community Futures currently delivers loans only to a certain amount. In most regions it is $75,000. Because two of the Community Futures have been going for more than a decade, they have built up a capital reserve and they have established procedures and what not and they have a higher limit, which I believe is $150,000. Going back to my example of Inuvik, whether a business development project is in the amount served by the Community Futures or in the amount served by the department, the same people would do the analysis.

As I mentioned earlier, in all likelihood that business proposal will have a debt component and a contribution component. One analysis will be shared between the two organizations. If it is within the Community Futures limit, the approval of the loan would be done there and the contribution component would be approved at the regional office, but it is a singular process to try and improve that coordination.

That is more or less the case as well in the Sahtu. In some other instances, there is less coordination than there is in those two situations, although it is something again that we are acutely aware of and again, that is one of the circumstances which we are hoping will be addressed by this committee which is looking at the business program review.

In terms of the actual monitoring, Business Credit Corporation loans are monitored more than quarterly at the regional level, but quarterly reports are produced at the headquarters level which are shared with all senior management and the Minister and which compare performance to the previous quarter and to the quarter matching in the previous year. Now, those performance reports are done on a portfolio basis. So at the central level, you are not looking at the individual clients. You are looking at has the overall portfolio deteriorated, improved, gone up, down, et cetera. Monitoring at the regional level would be done on a client specific basis, not a portfolio basis.

MR. CHAIRMAN: Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. Again, back to the idea of monitoring because we have as a government block funding arrangements with municipalities throughout the whole gamut of funding from the Government of the Northwest Territories. In this situation, it has been highlighted in the reports of the Auditor General within the Department of Resources, Wildlife and Economic Development and some of the lack of monitoring that has been put in place and right up to the Financial Management Board Secretariat in that sense because guidelines were put in place, the requirements were to be met, but in fact, some of the reporting previously was not met. So that is why I asked the question.

When that situation had come up you are saying, and correct me if I am wrong here, you are saying that a reporting mechanism would have kicked into place that would have made the appropriate Minister aware that things were not being met and had to be looked at more closely, right?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Yes, in the sense of the overall portfolio, not a specific loan. If I might, Mr. Chairman, this only speaks to Business Credit Corporation again, and I again acknowledge that it would be much better if we could consolidate those financial programs into a single approach, but in the case of the Business Credit Corporation, in 1993 our loan portfolio, Western Arctic only...pardon me, our total loan portfolio was $19 million in 1993. The provision for loss in 1993 was 25 percent, so it was considerably higher than the amount I quoted earlier, which was for 1999. In the loan portfolio, the loans that are...we call them special credit facilities. What that means is that it is a loan which is not operating in the normal sense. It is a client that needs some special attention. The percentage of those in the portfolio in 1993 was 33 percent.

Now, comparing that to the current period, our loans are now $31 million. Our loss provision is 14.73 percent, so it has dropped considerably. Our special credit facility is at 23 percent, which is down from 33 percent. So again, I am not saying there is not more monitoring and lots more that could be done, but certainly the numbers seem to indicate that some greater attention is being paid more recently than in the past.

MR. CHAIRMAN: Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. Those numbers you just ran off there initially, the first numbers were territorial-wide, I believe?

MR. DOAN: Yes.

MR. ROLAND: And the second series of numbers, is that just Western numbers? If they are, then we are not quite comparing apples to apples here because some of the loans that would have went with Nunavut might have been more questionable with their smaller communities, not as big, not as rich on the resource side.

So just for clarification, going back to the idea of loans, bad loans or whatever, during the process and the first question Mr. Bell asked was in the area of debts and loans and why can we not access them in a certain period and the only time we seemed to, and you pointed out we do get a report on it, is when we do a write-off of debts sort of thing. At that point, I mean, it could have been a number of years. If something had gone bad, a company or an individual could have gone back into the system to get more dollars from the government, even though they had outstanding debt with this government. As a Member in previous Assemblies, I have seen examples of that.

It just goes back to the idea of putting a time limit on some of the situations. I mean, we are, as you said, a lending institution of last resort in most cases. Would that not make it clear to the individuals coming forward that there would be certain other requirements for information that would be over and above going to a bank or private lending institution?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: There were two points there I was trying to capture. One was, you said, because of the time they could be coming back later and we have followed the advice of the Auditor General in terms of instituting procedures which ensure that even if all the staff have changed, if an applicant reapplies, there is a search done on their GSN, so that opportunity should not exist. As well, every application is subjected to credit facility checks and what not.

I realize that is not the answer to your question. Your question was if at the end of a period of time, information should be available that prior to that is not available. Again, the only answer I can give is that the length of time in some cases...there is no standard length of time is the short answer. Depending on the nature of a particular situation, some of them do require a fair length of time.

I would point out as well that even after an account has been written off, it has been removed from the books of the government but it is not forgiven, even after it has been written off. If that individual were to win the lottery or make an inheritance, we still legally enjoy the right to collect what is owed to the Government of the Northwest Territories.

So I guess I am sort of...I know I am not directly answering your question and perhaps I am not aware of the legal constraints. I do not think the release of information prior to a settlement is in the interests of the Government of the Northwest Territories.

If I could, Mr. Chairman, maybe I could ask my witness if he could add anything further to that.

MR. CHAIRMAN: Mr. Currimbhoy.

MR. CURRIMBHOY: Thank you, Mr. Chairman. I am not very clear what the Member is asking in terms of the specific terms, but if I may form the question as to ask that if a person has a loan that was previously written off, what are this person's chances of getting money again from the Business Credit Corporation? If I am right, Mr. Chairman, the answer to that is basically in support of what Mr. Doan just mentioned. As well, we have guidelines in place that

if a person does come back - we have not had, by the way, any instances of it having been put to the test yet, if I may say so, Mr. Chairman - is that when the loans are made, the due diligence is on the headquarters. A credit evaluation is done on the risk. The risk is inherent on the person's background, his past, his credit worthiness, his status whether he is in a position to repay his debt, whether he is in a position to keep up with his repayment for this commitment, whether he has a credit worthiness to get a loan. Those risk assessments are done. Basically, when we at headquarters see that if a client is unable to repay the loan, then we would generally recommend to the board or to the Minister that we reject those loans. I hope that would answer the question, Mr. Chairman.

MR. CHAIRMAN: Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. I guess just the short version is that it is fine in the one area, but there are a number of areas within the Department of Resources, Wildlife and Economic Development that has responsibility. Northwest Territories Development Corporation, our Community Futures and those areas. So, it works good in Business Credit Corporation, but there are a number of other lending agencies within government that government has a responsibility for. So that is where the concern would come in and again, the monitoring of those.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Just one other point, then, I should clarify that the Business Development Fund, we do actually...again, it is on a portfolio basis. So we do not give you client information, but we do provide you with an annual report which includes two components: one is a list of each recipient during the fiscal period; the second component of the report is an analysis which tells you which ones were used for which kinds of businesses in which kinds. It is an analysis of that data. It tells how many of them were made to aboriginal businesses versus non-aboriginal. How many in the various regions? What dollars? What numbers? That is tabled in the House every year.

The second thing, just in terms of accountability, is on the Community Futures side, it has been a little bit trickier because of the autonomy that they enjoy and that autonomy is frankly what they attribute their success to. So they have been reluctant to provide information by way of report that specifies names and dollar amounts and what not.

However, there is a requirement for each Community Futures to provide an annual report to the Minister, which again looks at the portfolio. It tells the number of loans that they have done, what kinds of businesses they invested in, what the repayment is like, their arrears ratio. So again, it is not at the client level. It is at a portfolio basis. Those annual reports are received by the department.

That is, in fact, if you like, the safeguard that if a Community Futures was perhaps making consistent lending decisions that were not appropriate, it would show up in this annual report that they submit. So there is a review, but that review is not at the...in terms of accountability by the department, it is not at the individual client level.

MR. CHAIRMAN: Okay. We need to, I think, break for lunch right now. Maybe I could confirm, Mr. Doan, are you and Mr. Currimbhoy available to come back at 1:30?

MR. DOAN: Yes, sir.

MR. CHAIRMAN: Okay. And one quick thing, to clarify some numbers that you used in response to Mr. Roland. The percentages you gave for special loans and write-offs for the Business Credit Corporation, is that reporting after the fact or are those approved targets?

MR. DOAN: No, that is after the fact.

MR. CHAIRMAN: Okay. Thank you. Okay, then, we have recessed our public session until 1:30 this afternoon when we will resume with Mr. Doan and Mr. Currimbhoy. Members, lunch has arrived. We have a briefing that is taking place over the lunch hour here, so Members are expected to stick around.

-- Break

MR. CHAIRMAN: As I said, we will call this meeting back to order. On the list, I have Mr. Krutko followed by Mr. Bell. Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. Mr. Chairman, regarding the whole reporting system, it seems to be one of the big downfalls here. There seems to be a lack of or a reluctance to get information to the committees and also to the public to see exactly how this expenditures are taking place.

My concern as a Member for a particular riding is to see exactly how these dollars are being spent in our different constituencies and to see if they are being fairly distributed. The concern I have is it may be great to have these different institutions, the Business Development Corporation, the Northwest Territories Credit Corporation...all of these corporations should be out there doing there own thing.

What I have seen in the last number of years is that it seems like a lot of their dollars and resources are spent either at the larger urban centres where there are opportunities for economic ventures, yet one of their main functions is the institution of last resort when the banks will not take the risk. What seemed to happened in my riding representing three unique aboriginal communities, in Aklavik, they are pretty isolated. They do not really have a real economic base. Fort McPherson has some potential because of the highway and their location. Then you have a small community like Tsiigehtchic where you have a small population and a small opportunity to get into business and generate revenues.

The problem I see is when you talk about reporting, I heard a comment earlier that these Community Futures boards feel reluctant to report back to the agency that gives them the resources to establish their investment portfolios.

In Inuvik, I was pretty surprised to see that my riding received $20,000 from the Community Futures board for three communities, yet a large portion of their dollars are being allocated to institutions such as hotels, tourism operators who are large scale operators. Yet when it comes to a small entrepreneur in the community who really is the client that the banks will refuse to see because they do not have the collateral or a business plan. The risk in order to retrieve their investment through a loan or business plan, it is going to be a long term investment. It will take quite a few years for the business to get established or for yourself to be on a safe footing so you can be independent.

I am just wondering. One of the areas that seems to be lacking is the reporting mechanism. Is there a way that I as a Member can see exactly how much money is going into my riding from any one of these different investment funds? Can you track it over a ten-year period to see exactly where the majority of these resources have been spent: in the southern part of the territory, the northern part, large regional centres. What has been distributed to the small communities? That is my concern. The commitment is not there to deal with the small communities that these dollars should be earmarked for.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. In each of the instances, the Business Credit Corporation and the Business Development Fund, there is an annual report filed which would provide information which includes the number of applications from each level of community, level 1, level 2, and level 3. It would provide the number of applications, the total dollars approved by those categories as well as additional information. It would not go to the specific client level. It would not name specific clients and amounts.

For example, in the Business Credit Corporation, I am looking at the 1999 Annual Report which has been tabled in the House, it provides for both 1998 and 1999 the dollars approved in level 1 and level 2 and level 3. It indicates the amount that was actually applied for and the total amount actually approved. In that particular year, 1999, there was $5,134,000 approved in level 1 communities; $2,240,000 approved in level 2 communities; and $2,096,000 approved in level 3 communities for a total of $9,470,000. The comparison is there to show the amount in previous years.

Similarly, in the case of the Business Development Fund, because it is not a loan it actually does give you a specific list of who in fact was a recipient. In the case of the Business Development Fund contributions, the recipient information at an individual level is available along with an analysis which clearly indicates how much goes to level 1, 2, or 3 communities, how much is going to aboriginal businesses versus non-aboriginal.

In the case of loans, the issue that we discussed this morning pertaining to confidentiality does restrict us providing the detailed client information. In fact, the reference to the Community Futures program, the Community Futures organizations basically suffer from the same confidentiality restrictions in the sense that they will provide us with information where it has been compiled together. Again, they do not actually provide us with the names of individual

borrowers, the amounts they have borrowed and what not. But the information they provide us I believe is adequate to speak to distribution in that particular region.

MR. CHAIRMAN: Thank you. Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. It clearly states level 1, 2, or 3, but what does that mean? For the communities I represent, if you look at population statistics and unemployment statistics...in Aklavik, you are looking at 38 percent unemployment. If you look at Fort McPherson, it is 26 percent. If you are saying out of those communities, which are level 2 communities or even level 3 communities, do we have an actual breakdown of how many communities? In the Northwest Territories, we have 33 communities. How many of those communities actually receive money from this pool of money? Is it broken down that way? Is there an actual amount set for each community so we can see it?

My concern is, and I may as well just come right out and be blunt about it, we spend a lot of money on technical people. We have EDOs in our communities. We have people at the regional level. We have Community Futures. We spend a lot of money regarding the infrastructure or structure itself for administering these programs and services. Yet at the end of the day when actual jobs are being created or opportunities are being seen through applications or proposals that go forth and are approved, what is the actual cost for administering these programs? What is the actual cost we can see as being spent on the reason for these programs to be established, which is to assist small businesses, create employment and so on?

Is there a way to track that so you can see when you make a decision that this company or this corporation needs another million dollars because of some dreamy venture or marketing scam they dreamt up and that they need this extra money. At the end of the day, how does it benefit a community that is producing a product? For example, the Fort McPherson Canvas Shop?

Is there an actual paper trail you can follow so you can see exactly...you spend one million dollars. At the end of the day, the products that will be sold through this marketing agency will generate ten more jobs in this community because of this extra effort to market a product that should make money and generate more demand. That is the whole scenario of marketing a product.

Can you follow that through a paper trail so you can see at the end of the day the goals that have been set for these different business ventures are being achieved and we are actually seeing numbers? We are saying look at the business plans. It will be there at the end of the day.

We talk about levels of communities. We talk about percentages. But it does not mean anything unless you have actual figures to state exactly how many jobs were created and how much money was spent on administration and how much money was spent generating jobs and opportunities?

Can you do that so when we come to an audit or our business plans, we can see how many jobs were created, or we invested $500,000 in a particular venture? I think we need that information. Is that information available?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. I believe that in the case of the Business Development Fund, to the best of our ability, that is the information which is summarized in the annual report and list of recipients that is provided. A lot of the data capture, I would be the first to admit is captured at the time the application is processed. It is based on forecasts. In some instances, there is no doubt that the intended targets are not achieved. I acknowledge that.

In the case of the Business Credit Corporation, we are not able to release data at the level of the individual borrower to the public without the express consent of the business owner. For that reason, the Business Credit Corporation provides an annual report which tries to provide that kind of information, but in a format where it has been compiled together to speak to the portfolio rather than to the individual borrowers that make up that portfolio.

MR. CHAIRMAN: Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. Again, we can see there is a reluctance to share information. I think that is the problem. We have a management services board making decisions regarding how they allocate dollars through that process. We as Members of a committee or even this Legislature cannot get access to information which we should have. It is not there.

That seems to be one of the bigger problems coming out of this report. There is no real clear reporting mechanism. Everything is too confidential. Sooner or later, we have to bring down these walls and say there should be some restrictions, but the restrictions should be set in a certain framework, one year or two years, or any reports or applications will be sealed for a certain number of years. The information at that time will not conflict the businessman's rights or whatever.

The problem I see is that there is not enough information being released. It is too restrictive. There are too many ways in which you can avoid public scrutiny by using the system that is in place now because of the argument that it is confidential.

If anything, we should be making this information available so it is not kept in either the domain of the Executive or the financial administration, or used in the excuse that I am a committee on my own and I should do what I want and I am not going to share my information with you.

From what you are telling me, nothing has really changed. That seemed to be the big problem we ran into in 1997 and 1998, regarding how large amounts of money were spent with no approval. After the fact, they have come forward.

Are you looking at changing that mindset in any way, so information is more accessible or that there is...at the end of the day, the public will actually see how these public dollars are being spent.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. I am not aware of any exercise that would have as its goal to provide additional public information on active loan clients from the Business Credit Corporation. I have to say I believe that the business community would have a problem with that notion. This is not simply a Northwest Territories issue. It is an issue in terms of small business lending in any jurisdiction.

I believe the efforts are being made to address diligence within the portfolio. But the release of business information on proprietary businesses in a public forum I do not believe would be accepted by the business community.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. I wanted to get to another point, but I think Mr. Krutko has hit on something that I talked about earlier. I would just like to say that I think...Mr. Doan had mentioned that we do not ask for blanket express consent to release personal information. I think that is certainly something that we should be looking at. He mentions that he feels the business community would not accept this and would not think that this is a reasonable request.

I think being a lender of last resort, and I realize it is different in some smaller communities, but if I was going to the Business Credit Corporation for a loan and was presented with a form, I think I could accept the fact that given a certain period of time, personal details about how the loan was granted or certain things in that paperwork, I would be able to accept that kind of thing being released. Mr. Doan feels the business community would not take kindly to this, but I think this is something that we certainly should look at in the interest of accountability and find out if that is the case.

I will move on to another issue. In Mr. Doan's opening remarks, he presents us with a chart of allowances for loan losses. Mr. Roland was asking some questions earlier, trying to see if we are in fact comparing apples to apples. Mr. Doan mentioned that in 1993, our provisions for doubtful accounts with the Business Credit Corporation...sorry, loan losses, was 25 percent. In 1999, it was 14 percent. I think the question was are those targets or are those actuals? I believe you answered that those are in fact actuals.

So in 1993, we had 25 percent of loan dollars defaulted on. In 1999, we are down to 14.73 percent. Could you just confirm that is what you are...?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: No. I believe what I said was the provision for allowance of doubtful accounts was 25 percent in 1993 and was 14.9 in 1999.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: So these are in fact provisions at the beginning of the year? We set these out? These are what we estimate our doubtful accounts may come in at? These are not actual unrecoverable amounts of money. They are in fact targets.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: No, Mr. Chairman, they are not targets. Each account is recognized as a doubtful account at the point in time when the department officials believe that collection is unlikely.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Okay. So since 1999, which is a year ago, 14.73 percent of the dollars we have loaned we believe are unrecoverable or doubtful?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Mr. Chairman, as at our year end, March 31, 1999, to the best of our knowledge, 14.9 percent of our Business Credit Corporation outstanding loans in dollars collection was doubtful. They were recognized as being difficult accounts and collection was expected to be doubtful.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Well, 14.73 is the number you have here, but that is not just money lent in 1999. That is money conceivably lent as far back as the early 1990s, our entire portfolio of lending regardless of when it was lent? It is not just talking about dollars lent in 1999, but the 14.73 percent is perceived to be or is assumed to be unrecoverable?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: That is correct.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Okay. I guess the illustration here then and the reason for showing the graph is to show we are not in fact way out in left field here or out to lunch. Saskatchewan has an 18.76 percent of their entire portfolio at this point in time, or at 1999, which they thought was unrecoverable. With the Manitoba Community Economic Development fund, 20.53 percent of their entire portfolio outstanding at that time was deemed unrecoverable. So we are in fact comparing the exact same thing in all of these six examples?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Yes, Mr. Chairman. There was one other comment on that, if I could. When I made that reference this morning, the question was raised as well concerning division and the $19 million in 1993 was in fact east and west. The suggestion was that would have perhaps influenced the numbers, which is of course true.

I would like the record to indicate that in 1993, only 18 percent of our Business Credit Corporation portfolio was actually in Nunavut. The amount of difference that would make is relatively small in the overall scheme of things.

MR. CHAIRMAN: Thank you. We will move on to Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I would just like to get clarification on some earlier comments during discussions with Mr. Doan. Specifically, the consolidation of the Business Credit Corporation, the DevCorp, Community Futures and the Business Development Fund and this review committee. Can Mr. Doan just clarify whether this committee is looking at whether it should be done or how it should be done?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. The purpose of the committee is very clearly to look at each of these programs, recognizing that our business community is small and we have fiscal difficulties, to look at a more coordinated approach, a singular approach I believe is the word they used, to delivery of financial programs to the business community in the most effective manner possible.

Keeping in mind that within the terms of reference for the assignment, the assignment stems from two recommendations in the Common Ground Economic Strategy report. The first one dealt with streamlining of programs. The second one dealt with ensuring the programs fit regional needs and are delivered regionally.

The exercise that has commenced is to address both of those recommendations. It is to try and consolidate financial program delivery into a singular framework, institution, whatever, and at the same time ensuring programs meet the needs identified in the regions.

The Minister in the initial meeting met with the committee. He asked them to look at various models. He asked them to meet business people out in the regions and talk to them and see what their needs are identified as, and to come back with recommendations. He actually asked for a progress report before the Christmas break. He asked that the recommendations on how this could be achieved, an implementation plan if you like, could be done before the end of the fiscal year. Thank you.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I will take that, having heard the word how in there, that this is how you are going to do it, not if.

If you could speak to the issue, specifically with the DevCorp, but across the board with your department the issue of whether these programs are an economic instrument or a social instrument, or a combination of both? They get into the job subsidization, the issue raised by Mr. Krutko in terms of the small communities, and the sense that there is some role confusion. It makes it difficult for someone like myself to have a clear sense of should we be holding these programs to strict economic criteria and evaluation frameworks? If not, if it is a social one, then where is it clearly articulated other than the $10,000 a year subsidization per job? It is a significant issue in my mind in terms of the direction. If you are going to be consolidating, where does that factor fit in? Thank you.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. This particular exercise discussed that particular issue in the context of developing the terms of reference. In fact, this particular exercise focuses, and its title is "Review of RWED Business Programs". It is acknowledged that there are contributions undertaken by RWED that will not belong within this exercise. The exercise is focusing entirely on business.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: If it is strictly business, I am assuming subsidization is not going to be a part of that. Is that what you are telling me? The Business Development Corporation with their $10,000 a year record of decision per position per job, whatever a job is finally determined to be, is that in the mix or not in the mix?

MR. CHAIRMAN: You mean the DevCorp, not the Business Credit Corporation?

MR. MILTENBERGER: Yes, sorry, the DevCorp.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. Very specifically, the business programs, and the Minister made it clear he did not necessarily require the group to exclusively deal with these programs, but he said his priority was clearly that we deal with the Business Credit Corporation, the Northwest Territories Development Corporation, the Business Development Fund, and I will come back to that but which is largely focused on business, and the Community Futures program, which is a lending program to small business.

The suggestion was that if the committee felt strongly about making recommendations in other program areas, he would entertain those. I think there is a notion that many of the other business programs out there are somewhat beyond our control. They are federal or administered by other departments. Certainly those four are within the purview of the Minister of RWED to deal with directly. His recommendation was to focus our attention on those four.

I commented on the Business Development Fund. The only reason I footnote that one is that there is one schedule under the Business Development Fund which is not really directed at

businesses. That particular schedule I believe is schedule G, called Community Initiatives. That particular program was specifically introduced when the economic development agreement ceased to exist when it sunsetted.

The Community Initiatives program provides money to community groups for planning and the kinds of initiatives that might be of interest to a group of people. They certainly contribute to the business community, but they are not delivered or packaged with financing. That particular kind of initiative fits more into the socio-economic side of things. It is not to be dealt with by that committee.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. This separate schedule, is that schedule G that you are talking about?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Yes, it is.

MR. CHAIRMAN: Thank you. We will move on now. I will put you on the list again, but you have had your...

MR. MILTENBERGER: I wasted that question?

-- Laughter

MR. CHAIRMAN: Mr. Roland, your turn.

MR. ROLAND: Thank you, Mr. Chairman. Going back to the doubtful accounts, what is the target set by the department when it comes to lending money as doubtful accounts as a target, not what you had outstanding now in the area of bad accounts, but as doubtful, do you have a target...

-- Portion not recorded

MR. ROLAND:...reference to a two percent allowance. Is that not something that is built into the Business Credit Corporation?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: I would like to have the witness respond to this.

MR. CHAIRMAN: Mr. Currimbhoy.

MR. CURRIMBHOY: Thank you, Mr. Chairman. Responding to the question with respect to whether targets are set for loans, if I may respectfully suggest targets are not set. If I may, with your permission, come to the two percent. The reason that is done in a matter that is

synonymous with the accounting practice that when a loan is classified as impaired, certain steps have to be determined. Certain guidelines have to come into practice.

We sit down twice a year and we determine the quality of a loan, the percentage thereof in terms of dollar values, how much has to be provided in terms of realization costs. At that time, we can determine a future date as to what are the collection prospects? What are the realization dollars that would be anticipated?

The two percent the Member refers to is basically an allowance which was previously five percent. On the recommendations of the Auditor General, it was reduced to two percent because it was felt that we were too conservative increasing our allowance rate. It was seen as a special allowance, or rather this general allowance is in the financial statements as well, would catch all the frills that were not provided for in the main portfolio. That is a general allowance. This is only specific to the Business Credit Corporation. I am not aware of it for big accounts, but in specific nature to the Business Credit Corporation, we have a specific allowance which is an actual allowance without loss impairment, and the inaudible two percent. Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you. Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. This general allowance of two percent is established of loans receivable. That is kicked in when a loan is identified as being something that is in doubt or impairment, an allowance for loan impairment?

MR. CHAIRMAN: Mr. Currimbhoy.

MR. CURRIMBHOY: Thank you, Mr. Chairman. No, it is not done that way. The loan impairment is specific to each loan account. The general allowance of two percent is specific to the whole portfolio. In other words, if the portfolio is $100, if it is $100, it inaudible rather than pay it, loans of the loans out there, those loan percentages are determined. The two percent is draining down on the net value outstanding of the loan impairment. It is like an umbrella on the net value. Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you. Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. Back to my first question, if there is no target set for potential of bad loans, I guess, although as we have heard a number of times this morning, all loans are good loans, but at some point the bank knocks on the door. Individuals across the North know that quite well.

If you do not have a rate of potential of loss here, how do you measure the performance side? We have heard that in 1993, we were up in the 25 percent area of loss. Now we are down to the 14 percent, which is a good measurement in the sense of coming down. But what is it measured against? Zero percent of initial loans loaned or what? What is the target? Or why is there no target?

MR. CHAIRMAN: Mr. Currimbhoy.

MR. CURRIMBHOY: Thank you, Mr. Chairman. The reason why there is no target is because that would admit we are making bad loans.

-- Laughter

The fact that we are not making bad loans but rather are making good loans. This is usually a situation that is done on the post-mortem situation. The patient, if I may use another word, is getting sick. We try to resuscitate him and keep the business alive. If it all fails, then we would then recognize that we would need to make a certain loss or impairment, or create a certain percentage. It is very hard to focus on how many of the loans are going to go bad. They may not go bad and you expect **inaudible** so we can put out more dollars again.

To answer the question, Mr. Chairman, no. That is the reason we do not make a target. This is traditionally what the industry has done after the fact, we assess what we have done wrong. To answer your question, sometimes we assess the reasons why these things have gone wrong and have established guidelines in place to try to rectify these things to help the business survive. Maybe give them a little bit of grant contribution money, try and see that principle payments are waived for three years. We have guidelines in place set by the board of directors that help these businesses carry on, which is the role. Thank you, Mr. Chairman.

MR. CHAIRMAN: Thank you. Mr. Roland.

MR. ROLAND: Just a final question in the area of that percent going down to 14, is that number impacted by the write-off of debt, or does that remain part of that measurement?

MR. CHAIRMAN: Mr. Currimbhoy.

MR. CURRIMBHOY: It is part of that measurement, Mr. Chairman.

MR. CHAIRMAN: Thank you. Mr. Bell.

MR. BELL: I am just curious about the comment on targets. I think if realistically we know that every year there are loans defaulted, maybe target is not the right word, but I think we would have a realistic expectation internally, even if it is not something that we publicly discuss.

No, we do not want to say publicly that we are accepting 14 percent as our target for bad loans. That is ridiculous. But I think internally, if these things happen every year, there is a track record here of doubtful accounts, I think we would be burying our heads in the sand if we did not admit that. We look at what would be an acceptable year. We look at moving from 25 percent to 14 percent as progress. I think you said today you are happy we are at 14, we are not at 25, but how do we decide what good is if we do not have any realistic expectations. Maybe six is good. Maybe 20 is good. Internally, you must have some sort of indications as to what you are willing to accept or shoot for. You are a lender of last resort. There is risk. We do

not want 75 percent risk, or 75 percent of our accounts to be doubtful. I think you would agree that would not be acceptable. What is acceptable?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: It is a good and interesting question. I think part of the answer is in the numbers we provided you. I think each of these institutions has a similar mandate, with the exception of the charter bank. The charter bank has a much easier mandate. They are trying to earn money for their shareholders, earn revenue.

But each of the other five corporations are trying to do exactly the same thing. They are trying to stimulate the economy and create employment opportunities. The numbers range from 5.6 to 20.5, but I do not think there is a magic number. You could perhaps internally set a number.

I would offer to you many of the complaints that the department receives are along the lines that we are not tolerant enough, that we do not go far enough to help out a particular borrower. They are doing everything they can. They are creating two or three jobs in the community and we should be doing more for them. As Mr. Currimbhoy indicated earlier, I would hope and expect that in each and every instance, the way in which we manage a loan account at the community level, and it goes back to the comment I made earlier. It is not a matter of "repayment of the loan". That is the charter banker's domain. Our concern is that at the end of the day, after perhaps several postponements of principle, after some additional contributions to help them over some of the humps in the business cycle, but at the end of the day there is a sustainable business opportunity there.

What I am suggesting to you is that there may well be a number we can establish as a shadow number, but my suggestion would be that it would be very difficult for everyone to agree on what that number would be. As Mr. Currimbhoy has suggested, we go into this on the notion that when we sign on the dotted line, whoever the signing authority is, we believe that this loan or business opportunity has a reasonably decent chance of success. Given that we are a developmental lender, we are going to be patient and we are going to work with them, et cetera.

In doing that, the fact of the matter is we are going to be wrong a certain number of times. At this particular point in time, it is 15 percent. You are right. If the economy goes for a bit of a shake for one reason or another, that 15 is probably going to rise. Right now, we are sitting on the edge of some extraordinary development in the non-renewable resource sector. I expect that the number of loans going out to small businesses providing service to that sector is going to go up. At some point in time, the cycle is probably going to come to an end. At that point in time, that number is going to be different again.

It is a very difficult thing for the Minister, the deputy minister and anyone else to set a number and say that is your target, because then we would have to perform to that target. That takes away from the notion that we will try and work with a client through some of the rough times.

The Business Development Fund, I know I am dragging on a little, but the Business Development Fund, if you look at those very schedules, those schedules form a pattern. What they form is actually the life cycle of a typical business. The first contribution there is to look at planning and feasibility, and perhaps hiring professional assistants to help you get off on the right foot. There are pilot projects. There is purchasing assets. There is marketing and training. Further along, there is one there for business relief. Virtually every business, maybe not every one but virtually every business at some point or another runs into some difficulties. That does not mean they are going to go out of business.

I think the attempt is to recognize that and work with the client through that. At the end of the day, the judgment is the ultimate repayment of the advances to the GNWT.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. I guess my reaction is that I find it maybe not amazing but difficult to see how performance measurement could go on at the Business Credit Corporation level without setting some sort of acceptable target range.

You do set an acceptable target range for loans that...I cannot remember the specific term, but something to do with at risk, but at any rate, you mentioned that there are complaints you are not doing enough to help people through, not loaning them enough money, not giving them enough assistance. I hope we are not using those as measures. I do not think those could be considered objective complaints. Certainly the people who are asking you for money are going to be upset when they are not given everything they are asking for. I do not think that would be considered objective.

Let me ask you this. When we had the 14.73 percent number on our portfolio, are we looking strictly at principle or is that principle and interest? So if I borrow $100,000 from you...

-- Interjection

The 14.73 includes the $100,000 plus the interest that was stated in the original loans? It is not just principle?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: The 14.73 percent would include both principle and interest.

MR. CHAIRMAN: Mr. Miltenberger. Excuse me, I went the wrong way on my list. Mr. Krutko. Sorry, Mr. Miltenberger.

-- Laughter

MR. KRUTKO: Thank you, Mr. Chairman. Getting back to the objectives of the corporation, one of them you mentioned was to create employment and income for residents of the Northwest Territories and promote in small communities and stimulate growth and businesses.

It seems like we have these different objectives. Is there a way that you can actually track to see if we are meeting the objectives we have set? You have not sold me yet on how this benefits my riding or my community. I see the Aklavik Fur Shop, for instance. That was one venture we thought had some potential, yet it is going down the tubes. You had the Fort McPherson Canvas shop and sure, it is successful in the context of producing product, but it has not grown in a number of years. You are talking about generating employment in a lot of the small communities, but you do not see the actual growth. The population is growing, but you do not see the business growing in terms of creating more jobs. You say there is a ratio where people are paid $10,000 for creating jobs and what not.

Looking at it from the ground up, it is not clear. It has to be more defined. We have to see exactly...sure, you may have got a business off the ground, but what is the business history of the small businesses we generate in these communities? The loans and equities put to those communities? Have they actually succeeded, or have they basically gone under? What were the reasons for that?

This type of data is needed to see exactly how successful these programs are, and are we meeting the goals we set for the different corporations and business ventures we are involved in. Again, it comes back to the whole question of ensuring we are able to measure and report these results so we can say okay, yes we did lose money but it was in the area that we had that high risk. The majority of these cases were not small, isolated communities and these were the factors.

It is great to have an annual report, but it does not tell you anything. It gives you some statistics, but to actually see where we have been in the last number of years where these things were established, but to see those results and measure those results so we can actually find ways of fixing these problem areas or streamline them.

One of the biggest problems we have in a lot of our small communities is not having the resource people there to assist you, the accountants, the bookkeepers, the lawyers to run a small business. For a lot of people, it seems like the management of running these businesses that usually bring them down. Again, that is where you have institutions that are there to assist them.

I am just wondering if you follow the goals and objectives you set, and how do you measure them?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. The two specific examples referenced are both Development Corporation investments. I would leave that for the Development Corporation to respond to.

In terms of the Business Development Fund and the Business Credit Corporation, the accountability...we make every effort to be accountable. We do that through the annual reports that are filed with the Legislative Assembly. If there are ideas on how we can make the

information more user friendly, we are certainly interested. It is something that can be taken to this committee that is looking at future business development programs. We would be more than happy to do that. The intent is to give you as much information as possible.

MR. CHAIRMAN: Thank you. Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. The question I asked earlier is basically where I am coming from. You are talking about regionalizing a lot of these programs and services, distributing them so they are more a regional makeup. That seems to be where you stop. You stop at the regional centres, but you do not actually get right into the communities where a lot of these problems with trying to get small businesses off the ground and trying to attract a trained workforce and what not, those are the problems you do not usually see in the regional centres.

Yet that is where these scenarios you are putting forth on how you are going to cure the problems regarding the Business Credit Corporation by distributing it to a larger radius. You are not getting right into where the actual areas we do not see, or I do not see, the actual benefits from these corporations.

It seems like your clients are usually people with deep pockets. It is the small people who are out there who want to get going and take that risk in the small communities and stay in the small communities to get the business off the ground.

Maybe you could tell me what the link is between the communities and these regional distribution centres.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. In the instance of the Community Futures organizations, each community in the area that they serve has a seat on the board of directors. The intent is that those organizations will be responsive to community needs as identified by board members.

In terms of the new organizations that have been set up over the last little while, every effort has been made to ensure that each community is consulted and that the community organizations and the regional organizations are all in agreement with respect to the establishment of a local community futures organization.

The concept of taking that down to the actual community level, I think there are some issues in terms of size and affordability. The lending undertaken by the Community Futures at the regional organization is a fairly small field area. It is not inconsistent with the way it is done in other parts of Canada. I am not sure that it can be taken to a smaller level.

MR. CHAIRMAN: Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I would just like to conclude the questioning that I unwisely interrupted with a side question on schedules.

I want to get back to the social versus economic vehicle. I have talked to a number of former MLAs with a history going back a number of years who have indicate that the initial intent of the DevCorp was basically largely social, with the idea to go to communities where there was not much economic opportunity, clearly recognizing that it is better to have people working and employed and doing something constructive than sitting on income support or unemployment insurance.

There seems to be a shift here, and I am not clear on what that mandate is right now. So my question is when all of these programs are amalgamated, will the subsidiaries that are currently being subsidized continue to be subsidized with the recognition that these are going to be permanent subsidies? That there is no real apparent chance that a lot of these subsidiaries will actually be stand-alone, viable businesses, but they are going to be employment vehicles for people in the community?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. Just to clarify a little bit. When I indicated the title of the review is a business program review, the intent is to focus on business needs. Perhaps I should have gone one step further. The Minister was very clear in stating those needs have to include the business needs of residents of all sizes of communities in the North. In fact, he recognizes the needs of some of the very small communities may not be identical to the needs in some of the larger ones. It is in the context of business.

The reason I stated that I guess was to distinguish it from such things as the contributions that are undertaken in the traditional economy. For example, to support trapping, which is outside the scope of that exercise.

In terms of the extension of ongoing subsidies to the existing operations, I do not think anyone has looked at that at this time. I cannot confirm one way or another.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I will rephrase it then. Will it still be one of the intents or one of the criteria then to subsidize programs that have more of a social benefit to them in terms of providing employment rather than just looking at strictly economic opportunities with businesses that are supported similar to some businesses that are currently supported with that intent in mind?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. The intention is to provide business support programs within the broad business sector that will assist with employment creation in all of the communities in the North.

Perhaps I am going out on a limb a little bit, but my expectation is that in some of the smaller communities, the programs would provide some subsidy that may not be available in larger centres.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. A final question. So economic viability will not be the only criteria? There will still be a social component, at least to whatever piece is left that resembles the DevCorp after this consolidation is done?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. It is a little bit speculative. I think the Minister, by asking that committee of people...he has asked them specifically to visit the regions, to talk to the business community. He has also asked them to visit some communities to talk to the communities folk. I think he is looking for some recommendations. My guess is yes, it will have to deal with the realities of the small communities.

MR. CHAIRMAN: Thank you. Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. I am aware that the Department of Western Economic Diversification used to issue a press release any time it was making a repayable loan. In it would be details of the contribution it was making. Such things as the amount, the type of the project, the expected repayment term. Obviously they would stay away form and not divulge personal and private information, but the rationalization for this press release was that these are public funds being expended here and the public has a right to know.

I am wondering if Mr. Doan could let us know why he feels...we have beat around this issue a little bit and we have talked about private information, but would this not seem to make sense for this government to do something similar anytime it is in the business of distributing public money?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. I would have to seek a little clarification here. I believe the funding you are referring to is contribution funding with repayable clauses. Contribution funding, as I indicated earlier, is very different from a loan to a specific business. In fact, I believe the territorial government has often released press releases on larger contributions, not necessarily on many of the small ones that are done by the department, but some of the larger ones.

I do not think there is an issue with releasing information on contributions. At this point in time, I believe there is an issue with respect to release of information in a lending situation.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: As long as we stay away from private, personal information or things that might affect the business negatively, why would we not look at making public the amount of the loan, the repayable term, the industry or sector the loan was made in without getting into specific private and personal details? It seems to me that in the interest of accountability and transparency, this would be something that we would be eager to do.

Certainly there are some questions about this. Our constituents all have questions about former loan practices of the government. I think this would go a long way in allaying some of those fears and concerns if we would be right up front and say we cannot give you the personal and private information, but we will announce anytime we are making a loan or contribution funding.

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: Thank you, Mr. Chairman. The short answer is the Business Credit Corporation Act does not allow us to do that at this time without the express written consent of the borrower. At some points in the past, even in my time, we have sought the consent but it is usually more for a good news story to illustrate the effectiveness of the program or something. It can only be done with the consent of the individual.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: So really then if the Minister so wished, he could just instruct you to ask for express consent any time you are making a loan and that would solve the problem and we would be within the guidelines of the Act. Is that correct?

MR. CHAIRMAN: Mr. Doan.

MR. DOAN: I will let the witness speak to this, if I may.

MR. CHAIRMAN: Mr. Currimbhoy.

MR. CURRIMBHOY: Thank you, Mr. Chairman. The Act, section 7.27, the Minister will give written directions to the board for policy guidelines and so forth, but he cannot do anything or issue guidelines that will be **inaudible** of the Act, contradicting another section.

There is a section in the Act that states that without the written express consent of a client, we cannot release any information. Thank you, Mr. Chairman.

MR. CHAIRMAN: I think it would be important to remember here that there has been an allusion here to public monies. In this case, the government has an Act that says we cannot disclose this information and we are giving out public funds. This government managed to find a way to disclose private funds that were being loaned to companies. That was a situation where the government was actually in competition with banks to lend the money out. In this case, as I understand it, the BCC and the BDF are supposed to be lending money in non-

competitive situations. In other words, there should not be market disruption. In that case, I have a hard time understanding why we could not.

We were able to divulge all sorts of information about Aurora Fund borrowers when that was not even government money. Now, we are having a problem talking about disclosing so that the legislators even know where the money is going, public funds in what is supposed to be non-competitive situations.

I think the committee is having a real hard time understanding the difference. Mr. Voytilla.

MR. VOYTILLA: Not speaking to the BCC Act, which of course is an act of Legislature, but the Aurora Fund situation was we had to go out and get consent because there was the potential that we could have faced some legal action by the borrowers if we did not seek consent. So we did seek consent and we were able to get it and release the information, on a somewhat restricted basis obviously. We could not release information about the credit check or the credit worthiness but we were able to release the name of the borrower and the purpose of the loan.

So it was possible to do it with consent. I know that, when looking at this, we did also look at the Access to Information, Protection of Privacy Act as well because there was an obligation on government there that they had to make sure they were adhering to it.

MR. CHAIRMAN: There is nothing here that would say that we could not, if Members of the Legislature agreed that this was important public information, there would be nothing to stop us from putting into the application process a portion that said, "if you are granted this money it would only be granted on the condition that you agree to the release of the company's name, the purpose of the loan, and the amount of the loan."

That is the information that this committee needs to know, whether or not the loans are in a competitive situation. That is often something that our constituents come to us and say, "So and so got a loan from the Business Credit Corporation that is going to hurt my business." We do not know that unless we know what the purpose of the loan is and the public should have the right to know what public funds are being used for.

I think that is what we have been trying to get to here this afternoon, and I do not think we have heard a compelling argument not to do that. So the next step may be political, for us to take it to the Minister, rather than continuing to go after the witnesses here today on this issue. I have not heard a compelling reason not to pursue this at the political level.

I guess I put that to you very bluntly at the witness table. Is there a reason that the bureaucracy would say that we should not expect to see that kind of information made available? If there is not, then we will take it to the next level. Mr. Doan.

I know the act would need to be changed but for that limited amount of information, do you see, technically, any reason why we should not ask the Minister to consider changing the act?

MR. DOAN: I guess, Mr. Chairman, to answer honestly, if it was limited to the, as you mentioned, three specific items, my concern might be, and this is just based on my experience over the last 30 years, but my experience suggests to me that people may want additional information now. Once we know that they have gotten a loan and they are in competition with somebody, they may then well want to know what is securing that loan. To what extent is it a secure transaction versus a non-secure transaction? What conditions were placed on the loan? Whether there are conditions that must be satisfied prior to disbursement or conditions that are satisfied on an annual basis?

If it was limited to the three pieces of information you indicated, it is probably not an issue. However, my concern would be that it would expand and if it expands, I know from the present and the past, there are concerns in the business community with the possibility of competitive advantage being lost because somebody's personal information is being made available to other businesses in the community. That has occurred in the not-to-distant past.

That is the only reason I made the comment earlier that the business community might have a problem.

MR. CHAIRMAN: That will have to be balanced with the need for the public to know what is happening with the public funds, so there is always a balance there that has to be maintained. Sorry, Mr. Bell, I jumped in there.

MR. BELL: No, that is fine. Just a final closing comment. I think you are right. The issue here is balancing privacy with accountability when we are talking about public money and I think that people... I certainly could accept that if I go to a charter bank for a loan, I do not expect any of that information to become public but if I am going after a loan of public funds, I think I could accept certain, limited information being public. I think that is a reasonable request and I think that is something this committee should pursue.

MR. CHAIRMAN: Thank you. That was a comment, I take it.

I have a couple of questions I would like to ask, just for clarification. I found it interesting today, Mr. Doan, when you mentioned earlier that it was always the intent, for the Business Development Fund and the Business Credit Corporation, for them to work in tandem or to be used in tandem.

After nine years of being elected to this government, that is the first time I have heard that. It is not explicitly set out in the activity summary in the budget. It is not something that I have ever heard discussed before.

I know you have talked about the committee that is talking about how to combine all the business functions and I understand that Cabinet has approved that to happen in the 2002-2003 years. However, in the meantime, how are legislators going to know when there are instances where the funds have been used together? I think it is important that we know, for instance, that somebody got $100,000 from this pot, $50,000 from that pot and maybe $40,000 from that pot.

However, as the way things happen right now, we do not. So in the next two reports that we are going to get before everything is combined, is there any reason that you could not look for someway to, perhaps, have a section that outlines where a business enterprise did get funding from several different sources?

MR. DOAN: I need a little clarification, Mr. Chairman. Are you talking about the case of reporting, or are you talking about the co-ordination?

MR. CHAIRMAN: We understand that you are working on coordination, that you do have a committee that now needs to ensure that there is some coordination between the different funds. However, right now, how do legislators know whether a company has received, say, $50,000 from the Business Development Fund, $100,000 from the Business Credit Corporation and $25,000 from the Development Corporation or Community Futures?

Right now, we have no way of knowing when a business has accessed money from three different places. If the government has said that subsidies are alright, up to $100,000 per job for the Development Corporation and $10,000 per year on an ongoing basis, how do we know that that overall goal is still being met if three or four different sources of funding are being accessed?

Legislators do not know because there could be all sorts of pots of money that are being accessed by businesses and right now, there is no reporting that helps us understand when those might be tied together. Mr. Doan.

MR. DOAN: Yes, Mr. Chairman. I do understand the question. The reason I asked for clarification is I want to know if it was a coordination issue, that you were concerned it was happening without the department knowing and, in that particular instance, I am saying the person that approves the contribution on the loan in the field is, basically, one person. So it is not at that level.

At the reporting level, and I am not trying to be evasive, but we have come back to this issue of reporting on the loan information. The Development Corporation is not an issue now because any new business they do will be outlined in their business plan. So we will be aware of that and you will be aware of that.

The contributions you are getting after the fact. The issue remains the loan client and, right now, we cannot address that, I do not think, without the direction of the client.

MR. CHAIRMAN: One other thing. You, also this afternoon, mentioned that people that come to the Business Credit Corporation, the expectation is that they may need some period where the principle, or interest payments, are foregone. There may be a need for extra support or, perhaps, even forgiveness of some part of the loan. Is the Business Credit Corporation working for the same requirements or expectation of the Development C orporation in terms of $100,000 contribution per job? Is the definition of a job created the same for the BCC and Development Corporation?

MR. DOAN: There were a couple of questions there. The answer, I think, to all of them is no. The Business Credit Corporation, under the act, is required to make loans that result in economic development. There is no requirement for particular job creation at any level.

Secondly and quite important, I believe, there is no forgiveness, normally, in the life cycle of the loan. The only forgiveness will go before the House. The only postponement that can be entertained or deferral, is principle, not interest.

So what I am suggesting to you is, to all intents and purposes, although we are as generous as we can be in working with the client, at the end of the day, the BCC operates more in the nature of a bank. They are lending the money, the intent is to collect 100 percent back with all of the interest that is accrued.

There is, to repeat, no requirement for job creation in the BCC. The difference is that that money is expected to be repaid back.

MR. CHAIRMAN: To totally switch from the economic development side now, part of the mandate of the department is the environment. Successive reports of the Auditor General, we have seen a concern expressed about the potentially huge liability that this government may face because we are not showing anything on the books for environmental liabilities.

The last reports were showing, I think, 738 sites that the government had identified. That has obviously changed after division. Has your department started to do any work at identifying the sites that in the Northwest Territories and ranking them by order of priority, in terms of when we have the monies and when cleanups should be started and just exactly where we are on this one?

MR. DOAN: Mr. Chairman, may I refer this question to Mr. Voytilla?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. In fact, the Department of Resources, Wildlife and Economic Development has been doing a fair amount of work on remediation. We have updated our information post-division. I think post-division, we are looking at about 411 sites with potential environmental liabilities and a number of our departments are doing a fair bit to inspect those sites because those are potential sites, not affirmed sites.

They are doing quite a bit to inspect those sites over time and to take remediation action where it is appropriate.

In the case of Resources, Wildlife and Economic Development, in particular, they have about 140 fuel cashes in the western Territories, outside of communities. Many of those are very small and remote. There are very few barrels. However, they are pursuing them and I think, out of those 140 sites, 24 sites, in the last little while, have been or will be inspected. I think about 14 of the sites, they have plans to remove the drums and restore the sites to their original conditions.

So they are attacking the problem. They are not going out to carte-blanche and deal with all 140 sites at once, but they flagged them and they are proceeding with inspection and remediation as their resources permit. So, at this rate, they could have all 140 sites addressed sometime in the next four to five years.

MR. CHAIRMAN: I was expecting that Resources, Wildlife and Economic Development would have overall responsibility for coordinating the whole approach to the environmental liability that we have there.

MR. VOYTILLA: No, Mr. Chairman, that is coordinated by an interdepartmental committee that we are on because of our financial concerns. However, the main lead departments are Resources, Wildlife and Economic Development and the Department of Transport and the Department of Public Works and Services, simply because they are the departments that have ownership, if you will, of most of the government physical assets and, thus, the environmental responsibility that goes with them.

MR. CHAIRMAN: Thank you. Are there any other questions for Mr. Doan or Mr. Currimbhoy? If not, thank you very much for your attendance today, gentlemen. I appreciate your spending the extra time here, over and above what we had forecast for you.

– ADJOURNMENT

Northwest Territories Legislative Assembly

Standing Committee on Accountability and Oversight

Wednesday, September 27th, 2000

Public Review of the Auditor General's Report on Other Matters
Northwest Territories Development Corporation

Standing Committee on Accountability and Oversight

MEMBERS PRESENT

Mr. Dent (Chairman)

Mr. Bell, Mr. Miltenberger, Mr. Krutko, Mr. Roland, Mr. Delorey, Mr. Lafferty, Mr. McLeod, Mr. Braden

WITNESSES

Mr. Roger Simpson, Edmonton Office of the Auditor General

Mr. Shawn Vincent, Edmonton Office of the Auditor General

Mr. Ron Thompson, Ottawa Office of the Auditor General

Mr. Lew Voytilla, Comptroller General, Financial Management Board Secretariat

Mr. John Carter, Assistant Comptroller General, Financial Management Board Secretariat

Mr. John Bayly, Principal Secretary

Mr. Fred Koe, President and Chief Executive Officer, Northwest Territories Development Corporation

Ms. Elizabeth Wyman Vice-Chair, Board of Directors, Northwest Territories Development Corporation

ASSEMBLY STAFF

Mr. Doug Schauerte, Deputy Clerk

Ms. Laurell Graf, Research

STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT

Yellowknife, NT

Wednesday, September 27, 2000

Public Review of the Auditor General's Report on Other Matters

Northwest Territories Development Corporation

CHAIRMAN (Mr. Charles Dent): I will call the committee back to order. Mr. Koe, I would like to welcome you to our table. Perhaps you could introduce yourself and your witness and proceed with your opening comments.

MR. KOE: Thank you, Mr. Chairman. It brings back some nostalgic flashbacks, sitting here today, sitting around this committee table.

My name is Fred Koe. I am the president and chief executive officer of the Northwest Territories Development Corporation and with me is Elizabeth Wyman. Elizabeth is the vice-chair of the board of directors of the Corporation. She is also the chair of the audit committee and, coincidentally, she is a member of the investment committee and she is a member of the newly created committee to review economic development programs.

I do not have any fancy presentation or any statistics or pictures to give you today. I wanted to come and listen. I listened this morning to the issues. Many are quite relevant. I know the report that you are dealing with is a bit dated, much before my time in this crowd. However, we will try to address the issues that are being asked and raised today, through the committee.

The Corporation is a going concern. We own nine subsidiary companies and we also have venture partnerships in ancther 13 companies. As you know, there has been a succession of managers over the 10 years of the life of the Corporation. I, personally, came on board on March 28th, 1999 and, at the same time, there was a wholesale change in the board of directors. Most of the board of directors were changed and new ones were appointed.

We have been working, over the ast year and a half, quite diligently in trying to address many of the issues that have been raised by the Auditor General and issues raised by the Financial Management Board. Basically, we have been trying to catch up in administrative work of the past nine years and it has been quite a challenge.

The relationships are another issue that we have spent a long time at. Trying to regain confidence of the public in the people that were supposed to be accountable. We worked at the relationships with the Auditor General's office. I think it is such now that we can talk and work together in dealing with the issues that they have addressed over time. We spent a lot of time with the Financial Management Board Secretariat staff in

trying to make sure that we are all on the same wavelength, trying to work towards the same objectives.

We have spent a lot of time with Resources, Wildlife and Economic Development and other government agencies and, especially, with the public, in trying to get out to the communities, especially where our businesses are and other places where they are looking to start up businesses.

One of the main issues that you were addressing this morning, the whole issue of accountability and reporting and just prior to me coming here, with Resources, Wildlife and Economic Development, the issue of whether we are a social organization or an economic business organization. That is one that the board of directors have been addressing and we have been working with that, trying to come to grips with what are we?

The Corporation, as you know, was created by an act of this Legislature and the board of directors which is appointed by the executive council are the governing body of the Corporation. As president, I too am appointed by the executive council and the access that I report to the board but I have been appointed by the executive council. I also report to a Minister, so I have dual reporting relationships.

The interesting parts come when we get our money because our money comes from a contribution from the Department of Resources, Wildlife and Economic Development and we are one line object in their whole conglomerate of contributions. We have gotten a budget in the last several years of $2.7 million.

We have many other obligations; filing an annual report, we do corporate plans, and, in the last several years, we have caught up on a few of those, we have caught up on the audits and this new board has submitted two reports that go back several years.

Now it gets more complicated because a lot of references were made to our subsidiary companies and some of our venture companies. Each one of those are individually registered under the Corporations Act. So they are supposedly stand-alone businesses acting like any other normal business registered with this government through the appropriate registrations. They also have their own boards of directors and they supposedly report to the board of directors. However, when they come for their budget, they come to the Corporation, which allocates a budget to them.

So it is quite complicated. It is very hard to be a corporation trying to run businesses with the types of accountabilities and reporting relationships that exist. All of this is under review and, hopefully, through this process, we will try to get more refinements and more clarifications as to really what it is we should be doing and how we should be doing it.

Throughout the whole budget process, I, as the president, or any of the board members, do not get a chance to come before this committee, or any committees of the Legislative Assembly, so it is quite interesting, all of a sudden, now I am here, reporting to a committee when I did not have a chance in all of the prior processes to present the

Corporation's plan to you. It is the whole accountability in reporting. The board is in charge of the Corporation. I report to the board. The board also takes directions, similar to the BCC, through direction from the Minister.

We have no formal reporting relationships through Resources, Wildlife and Economic Development, other than, in this case, we both have the same Minister. I do not report to the deputy minister of Resources, Wildlife and Economic Development. I report directly to the Minister and to the chair of the board.

I am not going to get into a lot of detail, in terms of what we have been doing. I think we can address those as I answer questions. I do want to say, in terms of some of the comments on the individual businesses and how we are dealing with them, we are trying. I know some of them are shut down. Some of the community businesses have not been open. We have been reviewing what we are doing, how we are doing business. We have spent a lot of time with the companies and the boards and the whole accountability and measuring what is a job, those types of questions.

However, the big change in the last year and a half, with the new board of directors, is the focus of how we do business. Before, there was an opportunity. There is still the issue of what are we? Are we government? Are we private sector?

What has happened, again, I can just surmise as to what has happened in the past, from my experience and what I have seen and investigated, there is an opportunity and, somehow, a plan got developed and money was put in. A building was built. People were hired. Machines, or whatever was required to do the work. A product was made. Then somebody tried to sell it and anybody who has been in business knows the process is not a recipe for success.

So in the past year and a half, what we have been doing, is focusing on what is it we are doing, what are we making, to satisfy customer needs. What is it the customer wants? What are they willing to pay for it? Then we are going back to our business and saying, "Okay, can we make this at this price so that there is some profit in it for us and can create jobs and keep the business going?"

So that is a major, major change in how we have been looking at our subsidiaries and how we have been looking in some of our venture investments. There has been no new subsidiaries created in the last year and a half and only now, because we have some money available, we are starting to look at new proposals for investments.

We have a series of committees that deal with these. We now have guidelines in place. We set our standards. We are measuring our existing subsidiaries on a monthly basis, the number of jobs that are being created but it is not all perfect yet. It is a lot of work. I expect a couple of years to get to a state where we can say things are really in place that we can be accountable to everybody and do every thing that is expected of us.

So we are working at it. The board has been very diligent in making sure I, as a manager, get these things done and they have been very supportive, in terms of the

tasks we have been trying to do. With that, I am here, and Ms. Wyman is here to help me in answering any questions.

MR. CHAIRMAN: Thank you. Do we have any questions for Mr. Koe or Ms. Wyman? Mr. Krutko.

MR. KRUTKO: Thank you, Mr. Chairman. I would like to thank Mr. Koe upfront, as he is the only president of this Corporation who made a personal attempt to visit the Canvas Shop in Fort McPherson. That is a first, so that shows you how interested the Corporation was previously in some of its subsidiaries. I think that is one thing that was lacking, the interest of the previous presidents of this Corporation.

I think in order to run any business, you have to have a hands on approach in dealing with the people you have working for you. You mentioned job creation. I think this government has to take it one step further in developing the human resources that are there. Sure, you are going to have people with sewing skills, but they also eventually have to have the ability to take over or market the business themselves. One thing that seems to be restricting these operations is while they get the subsidies for the jobs, there are no actual resources to train the workforce, giving them the ability to move up the ladder. So they do not just have a labour job, but eventually have the ability to run their own business, or have the qualifications to move on and enhance themselves by moving into a higher wage economy.

For me, that is something that is lacking here. You talk about creating employment and improving the income of the residents. We have found ways of getting them jobs, but we have to improve on the income of the people working for us. A lot of people do not get the benefits that people working for other companies may have. It is looked at as more of a labour position, skilled labour, especially at the Canvas Shop in Fort McPherson.

These ladies have been there for 11 or 12 years, yet their wage bracket has not really increased. Also, the ability to go out for training for different things such as using a computer, and things like that. They do not have training dollars in those organizations to allow them to do that.

I feel that, in looking at subsidies, we have to do a clear review of where things are at. I know that the situation in Aklavik where they have produced fur products in the past, but there has been a problem in the last couple of years having managers in place to manage the business. We are also seeing the problem with the fur trade in that capacity. One thing we have to do is continue promoting, and ensuring that these small communities have the opportunities and abilities to generate opportunities where there currently is none.

Where we see that is in communities with a high unemployment rate. In my riding, the community with the highest unemployment rate is Aklavik. Now, one of the communities that we are giving the opportunity is now shut down in the area of fur.

I think it is important that we not only look at developing the jobs through the Business Corporation, but also look at ensuring people do have the capacity to grow and develop

that workforce so they are, at the end of the day, competitive, able to promote themselves and move up the wage scale so they do not become solely dependant on going back to the old system. The thing is getting people jobs and getting them off unemployment, but I think it is also important that you develop these people so they can move on and find jobs in other sectors and other areas. That is something that you can maybe consider building on.

MR. CHAIRMAN: Mr. Krutko, before I go to Mr. Koe, I would like to remind you of how you would handle the situation when you are in the chair in the Chamber downstairs and it is question period.

MR. KRUTKO: No, this is committee.

-- Laughter

MR. CHAIRMAN: We want to make sure that we have time for other Members to ask some questions too, so I would like to ask you to keep your supplementaries really short after that long preamble, please. Mr. Koe.

MR. KOE: Thank you, Mr. Chairman. Mr. Krutko has raised many issues here in his statement that we struggle with. Again, the issue of if we are trying to run businesses and produce a service or product, and sell that service or product when we have to do that in a manner where we can compete in the marketplace. As you know, the marketplace is a global marketplace now because of the new inventions and ability to communicate, create and send product here or there across the world.

There are many limitations. I do not have to tell you about the cost of doing business in the North, especially in the small communities, and the costs of running manufacturing plants such as the Canvas Shop or Aklavik and Tuk fur shops. We did make product, and we are still making a lot of product out of Fort McPherson but it is at a cost we have great difficulty in marketing and selling in the global marketplace.

The furs, the whole fur strategy that has been worked on by this government, we have bought in and we are part of the implementation of that strategy through our businesses, but still, we are using labour. Even our minimum wages we pay to our workers at $9.50 to $13.00 per hour, in that range, that is almost minimum wage in small communities, and it is very hard to make a living at that rate. We are paying that per hour. Most of the competitors that we are up against go overseas and they pay one or two dollars per day. Most of your major manufacturers are doing that.

The same with canvas products. We have to get our canvas from Egypt, and that goes from Georgia to Egypt, up to Fort McPherson. We then make a product and have to truck it out to the marketplace. It is very hard. Even with the amount of money we get as subsidies, we do not have a wide range. We are trying to run a business with $700,000 - $800,000 in sales, and on top of that we still need a $200,000, or $180,000 subsidy.

It is only one example. I can go right down the list of each one of our businesses. It is an issue Mr. Miltenberger raised of what do we do, and how long do we operate under the

current regime? We have some guidelines, but until we develop proper regulations as to what the value of a job is, and we can equate that and come up with a quantifiable number, then we can say we are justified in what we are doing because it meets the criteria. You can set any number. Right now it is set from 1981 at $10,000 as a guideline. It has not changed. Everyone knows that it is very hard to justify and define a job valued at $10,000 that someone is going to be able to live on that amount in this day and age.

We are working on that aspect. We are trying to come up with a number. It is not easy. If the Corporation comes up with a number and decrees it as the value of a job then we have all of the other government people and federal departments that will start raising questions. We are trying to work with all of the partners to define that.

As businesses are eligible, you talk about multiple dipping. Well, as a registered business, they should be able to get training funds, access other contributions that are out there, but we have this stigma because we belong to this government that we are a government funded organization and a lot of the different contribution pots do not apply. This has been a problem we have had.

MR. CHAIRMAN: Thank you. Mr. Krutko.

MR. KRUTKO: I will give someone else a chance.

-- Laughter

MR. CHAIRMAN: Mr. Braden.

MR. BRADEN: Thank you, Mr. Krutko and Mr. Chairman. I was interested in Mr. Koe's opening comment regarding the philosophy, if you will, of the role of the Development Corporation on one hand as a unit that is there to drive business and create wealth, and on the other hand, one that has achieved a certain niche in our economy and our society as a social service arm, a job creator, an injector of some kind of economy, whether it is artificial or sustained. It has created some things in some parts of the Northwest Territories.

I remember a discussion that we had, I do not know whether it was in question period or committee of the whole, where I think we were discussion the Harvesters' Assistance Program and its relevance as a way of underpinning the economy of the fur trapping industry. I remember a response from Mr. Kakfwi to the extent that from his point of view, the government does not regard that program as something that really has a business philosophy. It is there to help sustain and maintain a very strong part of the culture of the Northwest Territories.

So, I can appreciate where Mr. Koe and the board are grappling with this issue. To take it to a question, Mr. Chairman, and this also reflects discussions that we had earlier today on performance measurements, does the Corporation and the Board feel it is getting a clear enough, direct enough, direction or mandate from the government as to what its function and purpose is?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: I will ask the vice-chair of the board to respond.

MR. CHAIRMAN: Ms. Wyman.

MS. WYMAN: Thank you, Mr. Chairman. As for the question, I think the board has really wrestled with its mandate, following under the act and with the direction that we got first from the Minister who appointed us, Mr. Kakfwi, and then from the current Minister.

The board, primarily made up of business people, is using our business philosophies that we bring to the table to run the Corporation, keeping in mind that we have a very social aspect to work with within the Northwest Territories. In a sense, we have developed a mission statement and some goals. It is to promote our financial independence by providing resources to businesses and that we stimulate economic growth, particularly employment. That is stated in our act.

As far as clear direction, the direction from the board is clear. I believe, and these are my own words or interpretation, that in a sense, we are taking social service directed money and using it to distribute in a business plan so that a business in a particular community... we are to go in where traditional business would not go in and set up a business model. We want to promote community expertise. We want to develop the capacity of the community to take on the ownership of the particular business venture that is being looked at establishing.

Getting back to Mr. Krutko's point, that means taking the person who started in the business as a sewer and hopefully moving them up into a management position. In a perfect world I would like them to take ownership. Whether that will happen, or at what timeline we are looking for that to happen, three to five years, maybe ten to 20 years. It depends on the business operation; it depends on the people in the community and their interest in promoting it.

I think we as a board have to decide how much is that worth in the way of subsidies to do that. I do not know. Ten thousand dollars per job might not be enough in some areas; it might be enough in other areas. Every community has a different cost of doing business. To rule it across the board saying "that's it" might or might not be a fair way of doing that. Thank you.

MR. CHAIRMAN: Thank you. Mr. Braden.

MR. BRADEN: Thank you, Mr. Chairman. Ms. Wyman has really helped to illustrate one of the dilemmas I am having with this, to try to be accountable in the way we support or pass budgets for various departments. You illustrated that you are taking funds that have a social service purpose, or underlying direction from the shareholder, and using business philosophies to do something with it.

How then do you measure the effectiveness of what those dollars do, and how can we measure that, and at the end of the day be accountable for how we vote those resources? That is the dilemma that we have as well. If you have a problem, we have a problem.

An aspect of this would relate to, as Mr. Koe has told us, about the companies and the ventures that are on the books now, some of the doors are in effect closed. Some of them are still going. We were looking this morning at what the value would be of those corporations in today's context.

The way I would like to put the question would be if the subsidies and the maintenance allowances were stopped, how many of these entities would be able to continue surviving on their own in a pure and straightforward business sense?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: That is a good question. One of our goals is to divest successful enterprises. We have had several of them over time, believe it or not. We have. Through our investment strategies, the Corporation has given money to certain ventures and the guidelines are that the venture should become profitable within three years. Within that time period, certain ventures may take a little longer, but they eventually purchase back the shares we issue. We give a venture company money in exchange for preferred shares, and there is a range of conditions that go with these preferred shares. Eventually, the plan is that they would redeem those preferred shares. We have had several of those.

In terms of subsidiaries, those are 51 percent or more owned by the Corporation. We provide a contribution to that company based on a business plan. Every company has a business plan with goals, objectives and measurement criteria that the board approves funds on.

The value of these subsidiaries vary, and we just had a major study done on every one of our subsidiaries company as to what is the value of those companies. The board is going out and looking for partners. We have to have some kind of value that we would like them to buy 25 percent or 50 percent. Well, what is that worth?

The board just made a decision, the investment committee just made decisions based on the valuations of the company. Generally, they are the values of the assets of those companies, and they vary. Every building is owned by the Corporation and the company, the sewing machines, sawmill equipment, or whatever it is we have.

MR. KRUTKO: You own a sawmill?

MR. KOE: We do.

MR. CHAIRMAN: Mr. Braden.

MR. BRADEN: So, are you at liberty to disclose this report or any of the information from it, Mr. Koe?

MR. KOE: The valuation reports? The investment committee just reviewed them so they will be making their recommendations to the board of directors on October 20th. Then they can address that. Yes, we have to disclose a number or value to potential investors. Whether we give them the actual report or not, that is another thing.

MR. CHAIRMAN: Mr. Braden, final supplementary.

MR. BRADEN: Thank you, Mr. Chairman. You spoke of a recommendation that would be going to the board. Just what will the nature of this recommendation be?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: It is just to set the value of the business, as we perceive it at this given time, based on the assessment, the professional valuation. Now, those numbers are also reported in our financial statements. There is an asset value of $10 million or $11 million dollars. That is a general value of our assets.

MR. CHAIRMAN: Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I have a number of questions here. Mr. Koe indicated, I believe, that the Development Corporation owns 13 businesses and partners, or joint ventures, in nine. I believe that is what he said.

MR. CHAIRMAN: Mr. Koe.

MR. KOE: Nine we own. Nine subsidiaries, or we are partners in nine subsidiaries, either wholly owned or partially owned, and we are partners in about 13 ventures.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: Could you just tell me what is your role as president and chief executive officer for the Development Corporation in the ones you own? Are you also the chief executive officer for the ones that you own/operate? What role do you have? You say you have preferred shares in some of these other ones. What role do you play in terms of an operation role in those other ones? The reason I ask is I recollect the former president indicating he was the chief executive officer, the way it was set up, in anything they owned he was de facto chief executive officer. I do not know if that was in writing. I am curious as to what the relationship is now.

MR. CHAIRMAN: Mr. Koe.

MR. KOE: I can clarify for the record that the past chief executive officer operated quite differently than I. His direction was quite different from what I get today. My role is I am the chief executive officer for the Corporation, as is designated by the Act. I manage the operations of the Corporation and its investments.

As I mentioned earlier, each subsidiary company or venture company is a registered company under the Corporations Act. They are independent bodies, but because we are shareholders either through preferred shares or 100 percent shares, or up to 51 percent shareholders in subsidiaries companies, we are the shareholders. We are all affiliated companies under the act.

That is the relationship. Technically, I cannot go into Fort McPherson because they have their own board president, they have their own general manager, and tell them what to do. I can get direction from my board and administer in terms of our global, corporate objectives, of our mission, goals, objectives, and plans as to where we are going and how we do business.

I do have some influence. I have direct influence because the current board initially appointed me to most of those boards of directors. Prior to me coming on, there was no boards of directors because the previous president disbanded all of those. He was de facto in charge by the Corporations Act.

MR. CHAIRMAN: Thank you.

MR. MILTENBERGER: Thank you, Mr. Chairman. Given the interlocking boards of directors and such, could Mr. Koe indicate if the Development Corporation has a strategic plan for the Development Corporation as well as its many subsidiaries, along with the relevant performance measurement criteria you would expect? Especially given how the mandate has been described, as a mix of business and employment, is it laid out anywhere what your expectations are for the Development Corporation as the umbrella organization and then the various subsidiaries that you have, each with their own unique circumstances but run on this combined philosophy, given the different community circumstances?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: Yes, each year the Corporation, through the board of directors, develops and approves a corporate plan. That corporate plan is the basis of their operations for the coming year. In there, there are the budgets that identify the subsidies to be allocated to the different subsidiary companies. It allocates a pot of money for ventures and a pot of money for corporate administration. There is a small pot for discretionary business development projects. All of that is outlined in a corporate plan that goes through the Minister and that is what gets approved by the Financial Management Board.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Mr. Chairman, I appreciate the financial side, but could he also speak to the operational side in terms of objectives, the overall strategic direction, things you hope to accomplish, expectations he has, and how he intends to measure the outcome of those expectations for the Development Corporation itself, plus its related subsidiaries? Once again, given the combined

mandate of business and employment opportunities. Is that in there, in addition to just how the money is broken out?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: Yes it is. It is an overview of the Corporation. It identifies its mission, critical issues, goals, strategies, a review of last year's corporate plan with a summary of the goals that were set and the achievements. We also get into the budget side of things. All of that is identified, and all of that is approved. That is a document that is reviewed and approved by the Financial Management Board before we get any money. We do not distribute any money until that...

-- portion not recorded

MR. CHAIRMAN: You can go to the bottom of the list now, if you like. I have four more people on the list to ask questions. I was going to see if Members would like a ten-minute break right now.

SOME HON. MEMBERS: Yes!

-- Laughter

MR. CHAIRMAN: Okay. We will break until ten to four.

-- Break

MR. MCLEOD: ...over the last couple of years, I have taken a good look at DevCorp. I have noticed and watched as some of the projects, especially some of the people who have been hired through the projects. To me, the whole idea is very good. It is a good concept. However, I think there have been problems with the program from the get-go.

It has plagued the whole concept and it is maybe not as viable as it could be. I am hoping now that it is under your regime and you are making a lot of changes that we are going to see some changes, especially in terms of process. A lot of companies up until now, and you are absolutely right. They have an idea, pump a bunch of money into it and then find out nobody is really interested in buying their product or cannot find the people who will buy it. There is no real plan.

There has always been the argument what is employment? What is defined as employment? Is it giving somebody a part-time job or is it gainful employment? I think that is something that really could be looked at and measured. That argument has always been there. It is something I certainly would like to see answered.

Everybody has to know the rules of the game. My question is what are you doing to incorporate some type of criteria so people getting into the game know a community or a business has a project for you?

Are you putting in some guarantees so we are not going to end up in situations where a business has been established for five years and all of a sudden they realize they do not have a business plan? Or they do not have the market they thought they were going to have, or...a lot of things have been left very shaky until someplace somebody recognizes it or the dollars reflect it. Are you going to be incorporating a more rigid process? More rules that people know right off the bat as they are getting into it what the rules are? That they have to have business plans. They have to have all of these things to show that it is at least viable.

MR. CHAIRMAN: Mr. Koe.

MR. KOE: Thank you, Mr. Chairman. Those were some good questions. Yes to all of them. The board and its committees have spent a lot of time on these issues. We have had several strategic planning sessions talking about exactly those issues that have been raised here. We have also set guidelines. We have investment guidelines that we have to consider when we are looking at making an investment.

There is an investment committee structure to address that. We have a process within that. We do not have all of the expertise in-house. We have some staff, but in no way are all of our staff well-versed in every type of business enterprise. So we have a process where we do use outside help to assess the venture. We have our own application form. I think Mr. Doan said we use their form. We have our own now. We are using our own form that outlines some of the criteria. Jobs are in there, how many jobs you are going to create.

Again, we are still using the guidelines of $10,000 because that is what is there until that gets changed. The main one for ventures is the $100,000 we have for capital investments. That is quite realistic in terms of longer terms. We are also looking at long-term viability of a project.

More and more the board are questioning things like the cost is $100,000 today and if they get into trouble, what is it going to cost us tomorrow? Or in year three or year four? That is one of the criteria that is closely evaluated. There are all kinds of criteria and guidelines in place, processes in place to evaluate and make sure that the board is making the right decisions.

MR. CHAIRMAN: Thank you. Mr. McLeod.

MR. MCLEOD: Thank you, Mr. Chairman. Mr. Koe, you indicated in your opening remarks that a lot of the subsidiary companies now - or a good part of them - have been shut down. I am curious because I know one of them is in my riding. I am just wondering what is the future for some of these companies? Are they going to be marked because they were under the old program and some of them expended quite a bit of money?

It seems that when you look at it, they are only at square one in terms of getting out of the door and getting all the criteria that they need. At the same time, they have expended a lot of money. Are you going to be revisiting some of these programs that

are dormant now, or are you going to be focusing strictly on the new ones you are going to start looking at? Where is your priority going to be?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: As I mentioned, the focus has been on developing products. Products we can market and sell, so we are looking at focusing on businesses that are producing products, such as Fort Liard Craft Shop, that is a Dene Craft Shop, and Fort McPherson are two examples.

With other businesses, we have had to reevaluate and look at what it is we are doing, what we are spending. The classic example is the Great Slave Lake Forest Products Sawmill where we were spending seven or eight hundred thousand dollars and creating 24 jobs for that amount of money. The board made a decision very quickly that it was not within our guidelines and was way over and above what we were really supposed to be doing with our resources. That was the decision.

We are now looking at places that are closed. The Aklavik/Tuk is one, Dene Fur Clouds is another. We have a business in Lutselk'e. We have a factory there with brand new sewing machines, but no business plan.

Every business that we are now getting into has to have a business plan. We have done that even with our subsidiaries. That is the basis, that every business has a plan of action and in some cases, one or two years of a basis for evaluating what we are doing. Justifying what we are doing.

MR. CHAIRMAN: Thank you. Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. I think the information we are getting at this stage has been good. In fact, there has been a significant amount of work done in the last year to try and turn things around. Again, we are dealing with reports back when we were made aware that the Development Corporation was going through a fair bit of turmoil, and that was how it was managed.

One point that has my interest, Mr. Koe, you stated that you report directly to the Minister, and that is your line into the Executive. The deputy minister, or the Minister's staff, they are with RWED, but the Development Corporation has a direct line into the Minister's office?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: That is correct. We have dual reporting. One to the chairman of the board and the other to the Minister.

MR. CHAIRMAN: Is that dual or dueling?

-- Laughter

Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. I understand there is a dual process, but mine was more in the sense of the concerns raised earlier this morning of when do certain things kick into gear if there was a concern? Again, we questioned Mr. Voytilla on the lack of reporting previously. When does that kick into gear? Does the Minister come back to you and say "well, I have not got an evaluation" or does he go to the board chairperson, or does it communicate through yourself back to the board?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: He does both. He has been having meetings with the board and committees in terms of his mandate to clarify and give direction. They in turn give me direction. On operating day to day with budgets and accountability I deal directly with him with the appropriate committee chair. We do now have, through our committees, each committee has terms of reference on certain mandates. They request reports on a quarterly basis, so we have quarterly reporting. Anything that goes to the board also goes to the Minister. If there are emergency issues, they go through the appropriate channel, mainly to the Minister and to the chair of the board.

MR. CHAIRMAN: Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. In the area of the reporting, again we were referencing this point in the record of decision, it sets the guidelines for the $10,000 subsidy, $100,000 startup area, I am not too clear on that one. When did that reporting start to occur? That was a high point of discussion this morning, that it did not happen for quite some time. Do you have a timeline as to when you started putting those reports together? I know you did say it may be another year or so to get everyone up to speed on it, and have all of the reports flowing. When did that start occurring?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: These reports are internal reports. We have them. We demand them from our general managers of our companies. We accumulate them and are working with the respective committee; our audit committee is acting as our finance committee. They are demanding reports on these things. We are working with that committee to format the proper information. We can, as you know, inundate ourselves with information.

We have yet to work out with the Financial Management Board exactly what it is they want in terms of monthly reports. We do not have a process. Our only requirement is to provide the corporate plan annually and get that approved. Then, the legal requirement to provide an annual report with the requirements as specified in the act. We have started that process again. We are just waiting for the current audit to be completed and we will be submitting last year's annual report as per the act.

Those finite reporting relationships, we have not worked out the details. The board will submit one monthly report to the Financial Management Board, there is no requirement for that set as of yet.

The issue of what is a job and how you define a job, as I mentioned, we are working on that. It is something that has been outstanding now for ten years. The expectation is we will do it now, but it is a much broader issue than just defining a job as we think of what that is.

As you know, and I referred to a variety of businesses that we are in, we have a lot of cottage workers we pay on a piecework basis. If you make a birch bark basket and you go out and collect roots, how much is that worth? You pay them $20 dollars. Then, you pay them to stitch the birch bark. How much is that worth? Well, we pay so much. Now we have to quantify those into a job, or some kind of measurement. Right now, we are looking at hours. You can look at income or you can look at hours and quantify it. How much is it to sew a beaded mukluk?

Those are the things we are struggling with. It is easy to do in a pure manufacturing or hourly rate environment like Fort McPherson. We can define very easily 60 jobs. That is what we have. This is what we pay, and the wages change. These are the issues we are working on and trying to come to grips with, and working with the reporting and regulations. Trying to define and come up with a regulation. Once those are developed then our relationship with the Financial Management Board becomes much clearer. We do not have to report every change or whatever it is we do now. There are certain guidelines in place to do those things.

MR. CHAIRMAN: Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. Is it the audit committee that looks at the $10,000 per job subsidy area, even though there is some work yet to be done there? Again, it goes back to is it something that the new board and yourself, as you took over the reins, so to speak, started to ensure and insist this get done from the companies, or was that being collected anyways and it was just a matter of working it into some useful information. That is what I am trying to get information on.

MR. CHAIRMAN: Mr. Koe.

MR. KOE: I will answer part of it, and I think I will ask Ms. Wyman to answer from the board's perspective. Information has always been collected. The companies out there were collecting reams and reams of information, but it was not getting through the system. It never got to our level. We did not refine it so it was meaningful, so it could be used as good management reports. That is what we are trying to do now.

There have been all kinds of processes over the past ten years, and types of reporting that has been done. It never really got back to say, the Financial Management Board, saying these are the numbers of hours, or dollars spent. That is really what we were doing. This is how much has been spent in the companies and a lot of it, as I said, was piecework dollars. We could not quantify the number of hours or a job to that. That is what we are trying to work out right now.

MR. CHAIRMAN: Ms. Wyman.

MS. WYMAN: Thank you, Mr. Chairman. The answer your question, Mr. Roland, I think is two-pronged. First of all, the investment committee, when we are considering an investment we look, based on the application and the business plan, how many jobs are being created and then how much money they are asking for. That is where we first look at the $10,000 criteria.

Then, the investment committee, based on other criteria, will make a recommendation to invest a certain dollar amount and that is tied to employment and job creation.

The audit committee, in a sense, after we have gone through hearing the business plan and whether we are going to make a recommendation to invest money, that information is used to develop a corporate plan on a yearly basis. From that corporate plan, on the financial side of it, there are great details on the budget considerations and what money is going where. Particularly in our subsidiary companies which are the companies we own 51 percent our more, and an amount for venture investment, which is a preferred share investment side.

From that, the audit committee's job is to review quarterly results from what our subsidiary companies are doing and what the corporate office is doing as far as a budget goes. We pick up benchmarks as to whether the are meeting or not meeting their targets. If we are to divert any money from our corporate plan that we have approved and has gone to the Financial Management Board and then through your main estimates for final approval, if there is an amount of money that we want to move from one line to another that is over $100,000, the board will recommend moving that amount of money based on approval from the Financial Management Board.

In a sense, once our corporate plan is set, voted and agreed upon, we cannot fool around with the amount of monies within that unless we get approval from the Financial Management Board. In a sense, the audit committee reviews those quarterly. Should we want to move a subsidiary company, if we decided we were going to give them $100,000 for whatever reason, it did not get off the ground and we want to take that money and use it for another company, we would then have to go to the Financial Management Board and get approval to do that before it is actually done.

That is where the reporting aspect comes from us during the year. With the other respect, it then ends up in our annual report and the Auditor General's office would then pick up any variations from our corporate plan that was approved, and from the annual report that we submit.

MR. CHAIRMAN: Mr. Roland.

MR. ROLAND: A final question on the answer just given. If there are any changes in budget allocations that went before for approval to the Financial Management Board, it is the Financial Management Board that has to make the change, or give approval of the change, or is it the Minister?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: It is the Financial Management Board under the $100,000 guideline there.

MR. CHAIRMAN: Thank you. Next on the list I have Mr. Bell. I am going to ask Mr. Roland to take the chair for a couple of minutes. Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. Going through the Auditor General's report, specifically chapter 5, there is an exhibit 5.2, total subsidies and payroll paid for 1997/1998 by subsidiary of the Development Corporation. There is a ratio calculated for the last three years. Some interesting things come up. I understand there are some blanks in here because certain subsidiaries did not complete the necessary payroll information and submit it to you. I think we will just leave that alone, I think it speaks for itself.

In other cases, there are several where the actual subsidies received exceed total payroll. I am wondering if you can speak to how that might be possible, and how something like that could have happened. Specifically, could these subsidies be used for anything other than payroll?

CHAIRMAN (Mr. Floyd Roland): Thank you, Mr. Bell. Mr. Roland.

MR. KOE: The normal process for any business is to have a budget. In your budget, you outline whatever it is you are going to spend money on. You outline your revenue sources. Our subsidy is one of the revenue sources. Basically, the subsidy provided by us is to ensure that the company does not go into debt, or into a deficit situation. That was the initial case.

One of the issues, and it was never really clarified, what are our subsidy dollars to be used for? Are they to be used for all operations? Capital expenditures, the total gamet of a business? So, in some cases you have payroll paid, and our subsidy in many cases, the correlation is not direct. Monies could be used for other purposes, for other operations.

Generally, our subsidy is provided to ensure that the company does not get into a deficit situation.

MR. CHAIRMAN: Thank you, Mr. Koe. Further, Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. I will just use an example here. If we take the Arctic Canada Trading Company, it had received subsidies of $946,000 and expended payroll dollars of $788,000. They, for instance, would have been well within policy to use the difference for operational requirements or to purchase capital. It would not have been specifically earmarked for payroll. By looking at this, you cannot tell that anything untoward has gone on. Just by looking at a ratio like this it does not raise a red flag. Is that correct?

MR. CHAIRMAN: Thank you, Mr. Bell. Mr. Koe.

MR. KOE: Yes. From this table, yes.

MR. CHAIRMAN: Thank you, Mr. Koe. Further, Mr. Bell.

MR. BELL: Thank you. So when I am looking at this, the obvious question is it looks like there would have been excess money here. The question would be, was that money turned back to the government? That is not a legitimate question, I guess, because certainly they could have used this money for things other than payroll, so we cannot simply look at payroll and look at where the difference went.

MR. CHAIRMAN: Thank you, Mr. Bell. Mr. Koe.

MR. KOE: Yes. Let's take the corporate headquarters. The Development Corporation headquarters. We have payroll, office rent, and other administration needs, equipment, telephones, so the subsidies would go towards that. Operating subsidies.

MR. CHAIRMAN: Thank you, Mr. Koe. Further, Mr. Bell.

MR. BELL: I just thought in some way these would be broken out so we could see what O&M was and what sort of capital purchases had been made so we could compare payroll information to payroll subsidies. I guess that would be the real comparison we would like to see in order to understand whether or not this $10,000 criteria is really being followed.

When we look at job creation and we look at the limits that have been set by the record of decision, we are looking at some way to be able to determine whether or not these things are being met. I guess from looking at this we cannot tell that. We would hope to see some clear way to determine what payroll subsidies were compared to payroll in the future. Just a comment.

MR. CHAIRMAN: Thank you, Mr. Bell. Comment. Did you want to reply to that, Mr. Koe?

MR. KOE: Yes, that would be difficult given the types of businesses we are investing or operating. Then money, the subsidy we provide is X amount given to a certain company. Our only guideline right now is the $10,000 guideline set by the Financial Management Board. That is all it is, a guideline. We have all of the other investment criteria that the board has to consider. Location, economy, socioeconomic issues. There are 12 or 13 criteria that are looked at before we invest. The wage subsidy or wage amount is one of them. It is not the only one that is considered. It is a guideline, that is all it is.

MR. CHAIRMAN: Thank you, Mr. Koe. Further questions in this area? Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I am not clear on these subsidies that we are talking about. When you talk about total subsidies on exhibit 5.2 you are talking about more than wage subsidies, you are talking about other things other than the $10,000 per job created?

MR. CHAIRMAN: Thank you, Mr. Miltenberger. Mr. Koe, further clarification.

MR. KOE: Thank you, Mr. Chairman. Yes, we are not making payroll subsidies. We are making investments based on jobs created. The creation of jobs and the maintenance of jobs. That is what we are doing. There are lots of arguments for different aspects of what is a job? You get to that discussion, and then what is the value of the job? Right now, this $10,000 arbitrary set value that is used as a guideline.

If we create a business with 20 jobs, and it is a subsidiary business, our initial guideline is we would look at a subsidy in the range of $200,000. That is the guideline. If it was capital money, we are going to build a building and there are 20 jobs being created, we would look at the guideline of $100,000 so we would be able to spend $200,000 if we had it. We know now we can only spend what we have and that is $2.7 million per year. On top of that there are revenues we generate from our businesses, products we sell and then there are the dividends we receive from the investments we make. That goes to our revenue pot.

Ideally, somewhere down the line this Corporation, and it is part of our long-range plan, will become self-sufficient and self-funding. Our investments will create enough return that we can keep managing what we have and make new investments, creating new wealth. That is the long-term plan.

CHAIRMAN (Mr. Charles Dent): Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I will not belabour that one. Earlier on as well, Mr. Koe mentioned the issue, and if this has been covered already when I was not here, let me know, the issue of divestiture. He said there had been two or three companies, I believe, that the Development Corporation had divested itself of.

I am interested in the issue of the Development Corporation divestiture guidelines. Are they in place and have they had the proper approvals from Financial Management Board to carry out these processes?

MR. CHAIRMAN: Mr. Koe.

MR. KOE: Yes, we have approved investment and divestment guidelines. The board...

MR. CHAIRMAN: The board has approved them. Has the Financial Management Board approved them?

MR. KOE: They have reviewed them. I am not sure if they approved them.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: My understanding is that they have gone through the Financial Management Board and been approved. I can always verify that for the committee.

MR. CHAIRMAN: We wondered if they had, so we would appreciate you confirming that is in fact the case. Are there any other questions for Mr. Koe or Ms. Wyman? Just a question for you, Mr. Koe, we understand from the Auditor General's Report that there was an operational review that was concluded on the Development Corporation earlier this year. Would copies of that be available to the committee, or would you have to check with the Minister to see if those could be released?

MR. KOE: There were several things done at the time of the change of management and change of boards. The Minister of the day, the Minister of RWED at the time had an operational review done of the Corporation. That was during the transition period. That was done, and is the property of RWED.

At the same time, because of the change in management, there were several audits done. Those were done by the Financial Management Board and are the property of the Financial Management Board, through the territorial audit bureau. Those you would have to get from the Minister of RWED and the Minister of Finance.

MR. CHAIRMAN: Thank you. It does not sound like there are any more questions for you. I would like to thank you for your attendance today. Ms. Wyman, thank you for attending as well.

MR. KOE: Thank you very much. Whatever the committee wishes, I guess you would request through the Minister and we would provide that information if required. Thank you for the questions and the issues. I think everything that has been discussed is relevant. I know that the board, the auditors, the Financial Management Board and ourselves are working on most of these to get them resolved, or to get them to a state where we are all comfortable so we can get out and create more jobs, more opportunities and more wealth. That is our business. Thank you.

-- ADJOURNMENT

Northwest Territories Legislative Assembly

Standing Committee on Accountability and Oversight

Thursday, September 28th, 2000

Public Review of the Auditor General's Report on Other Matters

Office of the Comptroller General

STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT

CHAIRMAN

Mr. Charles Dent

MEMBERS PRESENT

Mr. Bell, Mr. Braden, Mr. Delorey, Mr. Krutko, Mr. Lafferty, Mr. McLeod, Mr. Miltenberger

WITNESSES

Mr. Roger Simpson, Edmonton Office of the Auditor General

Mr. Ron Thompson, Ottawa Office of the Auditor General

Mr. Shawn Vincent, Edmonton Office of the Auditor General

Mr. Lew Voytilla, Comptroller General, Financial Management Board Secretariat

Mr. John Carter, Assistant Comptroller General, Financial Management Board Secretariat

Mr. John Bayly, Principal Secretary

LEGISLATIVE ASSEMBLY STAFF

Mr. Doug Schauerte, Deputy Clerk

Ms. Laurell Graf, Researcher

Mr. Doug Pon, Researcher

STANDING COMMITTEE ON ACCOUNTABILITY AND OVERSIGHT

Office of the Comptroller General

Public Review of the Auditor General's Report on Other Matters

Thursday, September 28, 2000

CHAIRMAN (Mr. Charles Dent): We are on item number nine of our agenda which is the public review of the Auditor General's Report on Other Matters. We have with us again this morning Mr. Voytilla, who is joined at the witness table by Mr. John Carter. For the record, we also have the Assistant Auditor General Ron Thompson from the Ottawa office and Roger Simpson from the office of the Auditor General in Edmonton. We also have Shawn Vincent, who is also with the office of the Auditor General in Edmonton. All Members of the committee are present with the exception of Sandy Lee, who is travelling, Steve Nitah, who is in his community and for the moment Mr. Krutko, who I expect will be joining us shortly. So we are back on with Mr. Voytilla. I have a list of questioners who were on the list when we stopped talking to Mr. Voytilla and moved on to other items yesterday. Mr. Bell, you are first on that list.

MR. BELL: I think the thing I wanted to ask Mr. Voytilla about yesterday was we got on to the topic of the record of decision versus the regulations and the fact that there had sort of been this direction from Cabinet that jobs created at the Northwest Territories Development Corporation were going to have this $10,000 maximum investment or subsidy for each job created. I asked Mr. Voytilla if he had any reason to think that this directive was not being adhered to, or was not being followed closely. He said that no he did not. There had been no reason for him to believe otherwise.

I think yesterday when we heard testimony from the head of the Northwest Territories Development Corporation, he alluded to the fact that there seemed to be 13 or 14 sort of guidelines or criteria that they follow. This is only but one of them. He sort of lumped them all in together and furthermore said that this $10,000 guide was an arbitrary number. I am wondering if Mr. Voytilla can comment again today...I guess answer the same question I asked him yesterday. Would this be some indication that there needs to be some clarification between the Financial Management Board Secretariat and the Northwest Territories Development Corporation as to what kinds of things need to be taken seriously?

MR. CHAIRMAN: Specifically, is it a guideline or a directive, Mr. Voytilla?

MR. VOYTILLA: My recollection of the question was did I think the Northwest Territories Development Corporation was either deliberately not following or for some reason not complying willfully. I had answered that I have no information that would lead me to believe that they were willfully not complying. Certainly we have been in dialogue and discussion with the Northwest Territories Development Corporation, as I think Mr. Koe pointed out, for some time, trying to make sure that at the end of the day we have an appropriate measure, that we can in fact measure it and that it is going to be meaningful.

With respect to the added clarity that the Chairman just provided, this directive from the Financial Management Board Secretariat is just that: a directive. We would expect adherence to it unless there was some attempt by the Northwest Territories Development Corporation to seek a Financial Management Board Secretariat waiver in particular circumstances of the guideline, but I would not, in my view, view the situation as one that would allow the Northwest Territories Development Corporation to exceed the guideline without seeking some sanction.

MR. CHAIRMAN: Thank you. Mr. Bell.

MR. BELL: Thank you. I am wondering if you can tell me how many times in the past two years, just a ballpark guess, the Northwest Territories Development Corporation has come to you for some sort of exemption to this guideline, as you say?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Zero, Mr. Chairman.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Okay, thank you. So, we certainly we have discussed the fact that we have a monitoring problem and we are working to address that. We are also developing the regulations. But Mr. Koe indicated that, you know, this $10,000 guideline is there, but there are other things to take into consideration, such as certain economies or where the jobs are being created. In your view, is where the job is being created relevant to whether or not this $10,000 guideline should be followed?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Those are part of the discussions that we are having with the Northwest Territories Development Corporation because we want a guideline that is appropriate and meaningful. The $10,000 was set a decade ago. It is probably timely just to look at the quantum, if nothing else. So those issues Mr. Bell is raising are ones that we need to address as we work through what is an appropriate guideline for the investment decisions and subsidy decisions of the Northwest Territories Development Corporation.

MR. CHAIRMAN: Thank you, Mr. Voytilla. Mr. Bell.

MR. BELL: Thank you. So we are working on addressing these guidelines and admittedly this $10,000 figure is ten years old and certainly it is something that you are in discussion with, but until then you would assume that they would follow this directive as closely as humanly possible and if you come to another agreement at some point in time we will deal with that then? For now, they should be following this $10,000 directive explicitly?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Yes, and if they see a legitimate reason why the directive would be

inappropriate in a particular investment circumstance, they should be seeking prior Financial Management Board Secretariat approval for an exemption.

MR. CHAIRMAN: Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I would like to address the issue of accountability and performance measurement specifically as it relates to territorial corporations and the recognition that good results information tends to be lacking from territorial corporations, and the fact that it was noted in 1995 by the Auditor General that this should be dealt with.

The Financial Management Board Secretariat indicated at the time, apparently, that changes were being considered in the area of accountability and performance in the reports that we have. In 1997 and 1998, it is noted that no changes have been made to the Financial Administration Act in the area of accountability and performance.

I would just like to ask Mr. Voytilla, are there specific changes being contemplated in regard to the area of accountability and performance that will deal with the issues that have been discussed over the last day and that have been identified by the Auditor General? Thank you.

MR. CHAIRMAN: Thank you. Just before I ask Mr. Voytilla to respond, for the record I should note that Mr. Krutko has joined the meeting now. Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. At this point in time, Part 9 of the Financial Administration Act governs boards and agencies of the government and provides the framework within which we direct and hold agencies accountable. The rest of the government is governed by other provisions within the Financial Administration Act. I think that as we work through some of the initiatives that we have on the plate right now, there may indeed be some need to revisit the provisions of Part 9.

Right now, we are putting a lot of work into what we call a third party accountability framework. I think that has been discussed with the standing committee at an earlier date. The Minister of Finance and the Chairman of the board made comments with respect to having developed a third party accountability framework for discussion later this fiscal year and that is a target we are working towards. As we work through what should be in a third party accountability framework and how it should be structured, it may give rise to legislative amendment proposals because the legislation is just one of our instruments, one of our tools in the overall set of accountability tools that we have. It is, of course, a very strong tool and one that may need to be looked at in the process.

MR. CHAIRMAN: Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. Could the deputy minister indicate then, Mr. Voytilla, I am not quite sure what he means in terms of time frames when he talks about as we work through. I specifically think of the Northwest Territories Development Corporation, for instance, that has been operating for ten years or so and spent over $50 million. There were

many questions, I recollect, late in the 13th Assembly, the Minister tabling I think three reports because they had not done anything for years. There is a substantive amount of money being spent in that one area that does not even begin to touch on the area of boards where we, the government, devolves or gives significant amounts of their total budget in the issue of accountability and performance measurement to make sure there are standards. This is a central government issue, I think, as we look at, as well, self-government issues. The role of self-government is going to be to monitor and maintain standards, yet the systems we have seem to be weak. Could the deputy minister just speak to specific timelines so I can get greater comfort then as we work through? Thank you.

MR. CHAIRMAN: Just to add to that a bit. In response to the 1995 report of the Auditor General, the Financial Management Board Secretariat did indicate that legislative changes to the Financial Administration Act might be considered in order to improve third party accountability. So it has been a number of years that this has been something that has been on the table and the Member, I think, has a legitimate question. What are the time lines before we actually see the legislative proposals? Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. Nineteen ninety-five was the first time it was made reference to and I would never want to whine to the committee, but I would point out that in 1996-1997, we did go through 20 percent downsizing and then division, so we were a bit distracted. We will, and I think this is a commitment that I can simply restate because I think the Minister has already made it, that we will have a third party accountability framework developed this winter and have something that we could share and consult with in the January-February-March period.

MR. CHAIRMAN: Thank you. Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. I look forward to that. I suppose we will accept the winter as being a tight enough timeframe, so we will not nail it down to the day. The issue of accountability and performance measurements, as well, relates not just to third parties, but as well to government departments. The deputy minister indicated that this falls under a different section of the Financial Administration Act, but the concerns are the same. I mean, from my own, once again, experience of being at this table for five years.

So I would just like the deputy minister to speak to the issue as they look at the issue of accountability and performance as a government. Third parties is one thing, but what about the equally critical component of the departments themselves? I recognize there are business plans and all these good things, but the issue of having a tight clear framework, measurable outcomes and all these other key issues are still there and require work. Thank you.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I would certainly concur with every statement the Member has made, that we have to be as vigilant, if not more vigilant, with our own directly controlled operations as we are with our third parties. I mean, we should be kind of being the example for appropriate accountability structures so that when we ask third parties to adhere

to good, sound accountability measures we are not asking them to do something we are not prepared to do ourselves, and certainly when it comes to third party accountability. The Auditor General has pointed it out. We have upwards of 50 percent of our budget being delivered by third parties. So for those reasons, it is really critical that we address both departmental operations and board operations.

With respect to departments, we think we have done a lot of work on improving clarity on what they are expected to achieve. A lot of work on determining how we are going to measure the degree of achievement and the results that will be reported. I again would hope that when we bring the business plans forward to you as part of the budgetary process that you will see those improvements and help us to refine them even more.

MR. CHAIRMAN: Thank you. One more, Mr. Miltenberger.

MR. MILTENBERGER: Thank you, Mr. Chairman. This is a question related to a premise that this is all based on the fact that there is adequate information systems in place, tracking systems in place so the government and the agencies can in fact have access to the information. That things can be checked. That there is the ability to communicate between the government and agencies and boards for sure, but even within government. The multitude of systems that are there so that you have the information that you can track results with.

I would just like Mr. Voytilla to speak to the issue of that critical factor. I know there are some initiatives underway, broad initiatives with knowledge management issues and such, but this informatics initiative has been on the table for...it has to be a decade, and there are still significant gaps in it. Thank you.

MR. CHAIRMAN: Thank you. Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. The Member is quite right. You need to have the monitoring and tracking systems to be able to be appropriately accountable and to be able to do appropriate planning. I think we have been making improvements in that regard, however, I would note that the first thing you need is to know what information you want and you need. The first stage of that is determining what will tell you whether you are achieving your goals or not. So it kind of has to happen concurrently, so as we develop our clear goals, as we develop the measures we are going to use to determine whether or not we achieve them, then we have to identify the data we need, the information we need and then the sources of that data. We have to make sure that in fact we can cost effectively gather the information and report on it. That whole link is one that has to be kept intact.

We have, as the Member pointed out, launched a knowledge management strategy initiative that we hope will help us improve our information systems and improve our management of knowledge in the organization because it is not just your computer systems and your software and your programming, it is just a lot more than that. There is a tremendous body of knowledge out there that has to be effectively managed and exchanged and kept and that is all part of the knowledge management effort.

I think we will again be able to demonstrate to you that we have made some progress this year. I am not saying we are going to be perfect by any stretch of the imagination, but we have spent a lot of work, and I will just use an example, a lot of work this summer on government-wide measures.

What are we trying to achieve? Well, we know that from Towards a Better Tomorrow, so what are we going to measure to determine whether we have made progress on achieving those goals and then what are the data sources? We have put a lot of work into the measures and making sure that we can collect the data. I think you will see that we plan on making a fairly, we hope, informative presentation to you on the tenth to lead you through the measures that we are proposing and the information sources we will use. We are following that through with every department as well. So hopefully that will...the proof will be in the pudding and you will see that.

MR. CHAIRMAN: Okay. Thank you. Mr. Krutko.

MR, KRUTKO: Thank you, Mr. Chairman. My question is in regard to environmental contamination. There was a major review done regarding the Auditor General's report concerning environmental liability to this government, especially in communities where we have fuel tanks and power generation and sewage lagoons and what not. I am just wondering, has the government completed or prioritized the list of these sites and where they are at and what the cost is to clean up these sites? What is the liability to this government? So, if I could ask Mr. Voytilla, do you have that information or have you compiled that information and gotten a rough estimate of what the cost is to this government to clean up these sites?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, we talked briefly about this yesterday. We are making progress. We are not where we would like to be, but we are making progress. We have updated and refined our inventory and we have asked our departments to work into their business plans a process for both quantifying and prioritizing sites. That interdepartmental committee I made reference to yesterday has taken a lead on improving that information. The individual departments have made substantive progress. I think we talked a bit about what Resources, Wildlife and Economic Development achieved this year. Transportation is also making in-roads and so is Public Works and Services and, of course, Public Works and Services has the tank farms.

Would we at this stage be able to actually put a number to it? Unfortunately not. That ability requires us to actually go in and do environmental audits to determine the level of contamination and work through a remediation plan. I do not think we are yet at that point. We have not made the investment. It is an expensive investment to make. Individual departments are going through and on the basis of how we prioritize the sites, they are trying to work remediation and environmental audit into their business plans so that we are addressing the issue. We are not standing still on it. We are moving ahead as much as resources will permit us to.

MR. CHAIRMAN: Thank you. Mr. Krutko.

MR, KRUTKO: Thank you, Mr. Chairman. In regard to the, I think it was the 1997 report, there was an estimate of 738 sites I know as part of division, but do we have a rough figure of how many of these sites are actually in the Western Territory?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Mr. Carter informs me that it is 451 sites, of which 140 are outside of community boundaries and 311 are within. In the case of 84 of these sites, either an assessment has been done or in a few cases the site has been sold to the private sector who will be responsible for any environmental remediation. In the case of the sites that have been assessed, studies are ongoing or remediation plans are in place. In the case of 49 of these sites, they have been completely remediated. So the work is progressing.

MR. CHAIRMAN: Mr. Krutko.

MR, KRUTKO: Thank you, Mr. Chairman. In regard to these sites, do you have a rough idea of which is probably the most contentious one? I mean, we know about Giant Mine and what not, it is within the municipal boundary of Yellowknife. Do you have any estimates of which ones are probably the most contentious and which we are looking at some major dollars to clean these sites up? As I mentioned, Giant Mine is one.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Well, I think the jury is out on Giant Mine as to what extent that is a Government of the Northwest Territories issue and to what extent that is a Federal Government issue. We have asked our departments to prioritize the sites in three groupings.

The first grouping is where potential human health hazards exist. For example, the sites were toxic or other wastes could potentially seep into the water table and contaminate potable water, sites where toxic material could contaminate the food chain, et cetera. So those that pose a potential health hazard are top priority. B, sites where danger may exist to wildlife and, C, sites where restoration would only be for aesthetic purposes.

We have asked them to group them and the departments are working towards that. I do not have a specific list where I could rattle off these are the sites that fall into category one, two or three, but I am sure we could provide that to you during the business plan process.

MR. CHAIRMAN: Okay. We look forward to receiving that information. Mr. Krutko.

MR, KRUTKO: Thank you, Mr. Chairman. That was the other question I was going to ask, when do you see a total complete review of these sites in the Western Territory and when will we see a report coming forth on exactly what the costs and the associated lists of prioritization and what not that will be filed either through this committee or in the House? Thank you.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Mr. Chairman, we have the site inventory. We can give you the prioritization work. As to the actual on-site environmental assessment of whether or not there is environmental damage and as to what remediation plans may be appropriate, we are not going to be able to provide that to you in the near future. Each department has an element of this in their business plan. They are addressing it. A comprehensive study such as the Member is suggesting would be a very expensive undertaking from the standpoint of undertaking the environmental site work and then actually financing the remediation.

Without a significant infusion of funds to departments, which could only happen through the budget process, I do not think we are going to be in a position in the near future to actually table a comprehensive report that says these are the problems, this is the extent of the problem in every case and here is the cost to clean up and here is the plan. That would be in itself a very expensive undertaking.

MR. CHAIRMAN: Thank you. Mr. Krutko.

MR, KRUTKO: Thank you, Mr. Chairman. In regard to the national issue regarding what is happening in Walkerton, I think we are not immune to that. We have seen it, especially in my riding, with the water contamination in Fort McPherson with THMs. There was a case of E-coli detected in Aklavik this summer. Again, it is an environmental issue and I would like to know, have we looked at the impact of what has happened in Walkerton on this government?

We do have similar technologies. I think we have to seriously look at the infrastructure we have in place, especially with our water treatment facilities. A lot of them are outdated and the technology back then was not as sophisticated as it is today. I think we have to seriously look at that.

Is anything happening in regard to what has happened in Walkerton, in regard to the Ontario government, but also to this government to seriously look at what...are we following the legislation when it comes to inspections and also making sure that we do annual checks and what not? Not only for what is in the system, but also what is within the facility itself in case there is an internal contamination within the plant or whatever, so that we know that. Is anyone looking at the infrastructure we have within our communities to see that what has happened in Walkerton does not happen up here?

MR. CHAIRMAN: That is really a business plan issue and I would suspect that the deputy minister has already indicated that this is something that they are prepared to discuss during the business plan sessions, but I would think that you are talking about in many cases capital rather than an environmental liability, because just cleaning up an environmental liability is different than putting in a facility to deal with the drinking water situation in a community. So I am not...I think that is really where this is going to have to come out. I think the deputy minister has already committed to bringing that issue forward during the business plan sessions. Mr. Krutko.

MR, KRUTKO: Well, it comes down to my original point is that we have a lot of infrastructure in our communities, which you are looking at 15, 20 years since these facilities were constructed. A lot has happened in that time since it used to be run by the Federal Department of Public Works and then we took it over. So there is the question about liability.

From my view, there are some major problems with the infrastructure we have in our communities, especially in the water treatment facilities that are out there. I think this government has to take a closer look to see exactly how safe those facilities are compared to other jurisdictions in Canada, because we have seen it in other areas. My view is that it is a cost of this government. We either put money in to upgrade these facilities so we do not have a major crash in this infrastructure or else we continue to just drag it along and do not do anything because sooner or later we are going to have a major incident where we will have contamination in one of these plants where we may have to, you know...these things are...the technology back then...there is a lot of contamination in those buildings regarding the types of materials that were used to construct these buildings and I think that has to be considered.

MR. CHAIRMAN: I do not think that anybody disagrees with you that this is a big issue for us in terms of making sure that the infrastructure we have in place is good. I guess the question would really come down to whether or not there is something like asbestos in the facilities to whether or not it becomes, according to the accounts of this government, an environmental liability. We are really just talking about accounting practices here and recognizing the liability in terms of cash costs to deal with something that may be damaging the environment right now, so sort of like asbestos. So, I do not know, Mr. Voytilla, do you want to try and answer the Member's concern?

MR. VOYTILLA: Mr. Chairman, I think I perhaps lack the confidence to fully address his concern. He certainly raises a critical issue that the government needs to fully address. Saying that, it is really an issue of environmental health, of municipal affairs and I probably would be certainly exceeding my jurisdiction and mandate to engage in a discussion on those issues. I think you have raised this as something that needs to be fully addressed during the business planning process, when government is setting it's priorities and allocating it's budget. I think I would concur that is where it should probably be fully explored.

MR. CHAIRMAN: Thank you. I note in the Auditor General's report, they just comment on the pay equity issue to note that there may or may not be enough money set aside in the allowance of $25 million there. In light of the court decision on September 8th, which would tend to indicate that we are all employees of the Government of the Northwest Territories, do you want to update this committee on where we stand with pay equity and specifically, does it look like that $25 million is enough?

MR. VOYTILLA: Thank you, Mr. Chairman, at the end of 1998-1999, we actually increased the accrued liability to $33 million, up $8 million, and that is because the initial $25 million was a rough calculation that we later refined as we did further work and further research and contacted people and cleaned up, if you will, employment records for those people who were in our view eligible for the settlement offers that we put out. To date, the tribunal process itself,

of course, is still continuing. It is not a short process. We expect that the Public Service Alliance of Canada and the Human Rights Commission will conclude their evidence sometime this winter, and that by early Spring, the government will be presenting its case.

We expect that just in going through the evidence and case presentation process, we are probably in the tribunal looking at another couple of years just for that stage and it then becomes what they call phase two of the process, which is in itself somewhat lengthy. So we do expect we are about three to four years away from any conclusion on the tribunal process. As you can imagine in going through a process of this nature, many issues come up and there are numerous issues that need to be referred to federal court to get rulings on. I think there are three or four of those right now that are before the federal court, including an appeal of the debate decision.

So it is a very lengthy, very involved, very cumbersome and complicated process. So we are always vigilant for the opportunity to try to resolve the issue with the complainant outside of the tribunal process. We have been successful in resolving the complaint on an individual basis with 85 percent of the individuals involved in the complaint who we have been able to contact. We have the number of people we have been able to contact up substantively through a facility that Revenue Canada offers. They will help you contact people through the tax system. They will never let you contact them directly, but through the mail out of the tax return material every year, they will, through Revenue Canada, transmit your information to the individuals and then the individual has the option of contacting you to follow up. So that has worked very well for us because there were about 900 people we had not been able to track down. Through that process, I think we found over 600 of them. Almost all of them have agreed to individual settlement agreements. So we are very encouraged that we have resolved the complaint with, I think it is between 83 and 85 percent of the people that make up the complaint. We are always looking for an opportunity to resolve the overall complaint with the Public Service Alliance of Canada.

From time to time, discussions are held and the parties see if there has been any change in positions or any developments that would spur a settlement on and there have been discussions of that nature from time to time over the last year, but none that have yet borne fruit where I would hold out to the committee that we are soon to resolve this issue. I think right now we are in front of the tribunal and probably will be for three or four years.

MR. CHAIRMAN: Thank you. Mr. Bell.

MR. BELL: Thank you. I would like to ask Mr. Voytilla about some specific issues in Chapter Six on Contracting Practices. Some of the observations here look at trends and they compare the 1996-1997 and 1997-1998 years. I think if we take a look at these graphs, they illustrate it appears sole-sourcing and the use of Request for proposals is on the rise, on the move, between 1996 and 1998. The use of Northern businesses, on the other hand, approved Northern contractors, seems to be declining. Mr. Voytilla mentioned in his opening comments that we take all observations of the Auditor General seriously.

I am wondering. This trend that we see is obviously disturbing. I think everybody on the

committee would be concerned by this trend. Have we had indications in previous Auditor General reports that this was an existing trend? It looks like we were not able to do anything about it if there were previous indications, but I am wondering if you can speak to this trend?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I do not know that I would categorize it as a trend. I think we have a two year comparison in the report and it is a bit dated. The Auditor General does flag some legitimate issues in his report and we have, in the last few years, done an awful lot of work in this area and have a fair bit that we can report to you.

In the area of negotiated contracts, there was a concern that was expressed, I believe, in the Auditor General's report that perhaps the decision criteria for negotiated contracts needed some improvement. So we undertook a review of best practices in this regard across the country and proposed to the government a number of changes to the decision criteria for negotiated contracts and those were accepted and there is now a very comprehensive set of requirements that have to be met when negotiated contract proposals come forward and that includes clear measurement of the premiums being paid, clear measurement of the benefits being achieved and a number of other factors. So we do feel that there is much greater rigor in the decision process now than has ever existed. Not that the decision rigor was ever not significant, but we have made it, with these changes, even more significant. I think we have done quite a bit as a government in ensuring that negotiated contracts go through a very rigorous evaluation process.

With respect to overall contracting practices, we also did a recent procurement audit and have proposed a comprehensive set of reforms to our procurement practices and our contracting practices and those reforms will be going forward to the Financial Management Board Secretariat and Cabinet where appropriate within the next month, we hope, and then we will move forward with implementation. I think you will see again some detail in that regard in the business plan process. I know certainly it is my intention in bringing forward the Financial Management Board Secretariat business plan that we would review that thoroughly with the committee. In fact, besides contracting practices, we have done a lot of work in individual purchases, commodity purchases and, through the procurement audit, have a number of changes recommended to how we procure certain types of commodities like microcomputers and telephone rentals and pharmaceuticals and other particular types of purchases.

I think we have done a lot to improve the quality to get ready to improve even more of our contracting and procurement practices and I think we will be able to share those with you in more detail in just a few weeks.

MR. CHAIRMAN: Mr. Bell.

MR. BELL: Thank you, Mr. Chairman. First off, I guess I would argue that if we look at three fiscal years, 1995-1996, 1996-1997, 1997-1998 and the data comes back showing us that approved Northern contractors are on the decline or their use of them is on the decline, I would look at that and say that is a trend. In any case, I am glad to hear that we are looking at best

practices, some proposed changes have been accepted by Cabinet in the area of negotiated contracts and some further proposed reforms will be going to Cabinet in the general area of procurement. I guess my question then is, if we look at this data, and certainly it is disturbing to us, we have been told that some changes have been made, accepted, going forward, and I am sure, Mr. Voytilla, you have the data already for the last year past. Can you tell us if this trend continues or is it reversed? Thank you.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: I am gratified by the Member's view that I would have that data ready, but unfortunately I do not. I can certainly undertake to get that to the committee forthwith. We do have the raw information and it will not take us very long to compile it and get it to you.

MR. CHAIRMAN: Okay. We will look forward to receiving that information. I have Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. Yesterday in questions to the President of the Northwest Territories Development Corporation, he informed us that in fact for quite some time they have, as he stated, reams of information that has been available. It is just a matter of how you compile it.

I guess that when I became aware that there is a lot of information there that just needed to be put together in a certain set standard, I guess, to find out that it has been many years since we have been able to do the monitoring of that. I mean, it is good to hear we are going to make some changes, we are looking at improving the monitoring and reporting of requirements made on our corporations, hopefully boards and agencies as well.

My concern is the fact that if there is already information there that needed to be put together, why was it not put together and what does that mean for any system we put in place? If the information was already there, as Mr. Koe stated, why was a request not made? It is not like all of a sudden they had to come up with a system. He stated clearly yesterday there was reams of information that each corporation had and it was a matter of compiling it.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. I made due note of Mr. Koe's comment yesterday about reams of information and I will be following up with him. We have not, in the past, seen reams of information in what they have provided or attempted to provide. I do not know if the Auditor General has seen the reams of information in his audit process, but if it is there and Mr. Koe says it is, then I am very anxious to go through it with him.

MR. CHAIRMAN: Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. A different line of questions in the contracting area. The use of request for proposals as I have seen it myself and this government has increased and concerns from constituencies, businesses out there saying that in fact it is being used all too often. In some cases, we understand that the request for proposal process where a

government body is not sure how they want to get to, I guess, construction or use or put a program in place. So they pull out a request for proposal. In some cases, request for proposals are being used for some very straightforward information or contracting. Is that being looked at in your procurement and the use of request for proposals versus your just straight forward tender process?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: I would answer affirmative to that, Mr. Chairman. Not only where it is appropriate to use a request for proposal versus a tender, but then the process you follow, the rating you do and then follow up with the bidders or proponents. This is particularly important with a request for proposal. I mean, part of the best practices study that we did suggested very strongly to us that there has to be feedback loops to the proponents to both explain to them where their proposal was either deficient or strong and to give them some vehicle, some avenue to raise complaints and have them addressed. So that is a recommendation we are taking to heart and working out ways in which we can provide that kind of additional accountability back to the bidders.

So the short answer is yes. We are looking at where you use a request for proposal and where you use a tender process and making sure that there are clear guidelines for our contract authorities.

MR. CHAIRMAN: Mr. Roland.

MR. ROLAND: Thank you, Mr. Chairman. In the area of contracts, as well. The Business Incentive Policy is something that has been discussed for some time and it goes on the question asked earlier about the decline of using Northern approved businesses. Is anything being done in this area when you speak of your procurement review?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Yes, Mr. Chairman, the Minister made a commitment to look at the Business Incentive Policy by this fall. A team was put together, work was done, research was done and I think we are at a point where some proposals will be ready for vetting with the committee in the near future. I think the commitment was by late fall we would have something. I think we are on track to achieve that.

MR. ROLAND: It is snowing out there, so I guess.

MR. CHAIRMAN: Thank you. Mr. Delorey.

MR. DELOREY: Thank you, Mr. Chairman. Just to reinforce what Mr. Roland was talking about on requests for proposals. There is a great concern out there from the business community in the use of requests for proposals. I know I have personally been involved in a couple of them with the government and it is a very frustrating process because businesses go through a lot of expense to get the requests for proposals prepared for the government. The

opinion is that it is just another way of sole-source contracting because at the end of a request for proposal, when it is awarded, it is very hard to get any information as to why you were turned down. The other part of it is that the other proponents, the other ones submitting requests for proposals, you cannot get any information why you are.

I know in one particular instance I had one turned down, but the reason they turned mine down, the reasons they gave for it were not in the call. It was outside the area of the call for proposals. So it was very frustrating because you could not get any information as to why you were even turned down. I would hope they are looking at that.

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Absolutely, Mr. Chairman, that is a legitimate complaint. We have heard it from the business community. The Chamber of Commerce has raised those concerns with us frequently and yes, that is a significant part of the reforms that we are looking at.

MR. CHAIRMAN: Mr. Krutko.

MR, KRUTKO: Thank you, Mr. Chairman. Also on the same subject matter regarding requests for proposals. It seems like, especially when there are a lot of these major studies we have seen, the different health studies, the Med-Emerge report, it seems like it is a way for southern institutions to get into the Canadian market without allowing for development of our human resources and also our ability to attract people to the North to be able to take these sort of contracts on, but without allowing them the opportunity to bid on these things or even establish their business in Northern Canada. To me, what we are telling Northern business is you do not have either the smarts or the ability is not there.

In order to attract the ability of people to take on these contracts and have companies establish these sort of consultant businesses or what not in Northern Canada, we have to ensure they know they will have that opportunity and they will establish their business in the North. The two requests for proposal lately that we have seen that this is just a simple way of, you know, what we are telling the rest of Northern Canada is that you guys do not have it and the only people who can do the job are people from southern Canada.

I think that by these contracts going to these mega companies in southern Canada to do these reports, especially on the different health reports that have been done lately, is that we have to see what the balance is between North and south usage of these contracts. It seems like a lot of these studies and major reports where we are talking a lot of dollars here have gone to southern companies and corporations. I think we have to clearly identify what the reason is for requests for proposals, if it is a way for southern companies to get into the Northern market without having a bidding process or because they have something that...I think we have to seriously look at whether we are doing justice to attracting the business community to Northern Canada by having this in place. We know they do not have to move to the North because they are going to get the contracts anyway.

Has their been a misuse of this process by this government, especially when we give the

southern companies or people in the southern market a way to get into the Northern Canada to attract this money only to take it south again?

MR. CHAIRMAN: Mr. Voytilla.

MR. VOYTILLA: Thank you, Mr. Chairman. It is a question that I think raises a number of policy issues. I am not speaking to the suggested misuse, but just to the goal of our contracting practices and what the intent should be behind them, what objective should we be having when we develop our contracting regulations and policies.

I think the Member has voiced a strong view on what that policy should be and that is certainly something that would need to be debated and reflected in any kind of Business Incentive Policy or any kind of contracting practice. I think the whole issue of development of a Northern capacity is an important one for government to come to grips with in the way it contracts.

I cannot give him a specific answer now. I think it is a policy issue that will need to be debated as we bring through things like the proposed changes to the Business Incentive Policy. I think that certainly the comments he has made are ones that I will pass through to the Minister to make sure that when we do bring changes forward, that those kind of issues are addressed up front. Hopefully that answers as much of the Member's question as I feel I can answer.

MR. CHAIRMAN: Okay. Thank you. Mr. Krutko.

MR, KRUTKO: Yes, again, regarding the requests for proposals. We have to realize that we are demanding a lot of things from other institutions or other companies out there. We are demanding things from the diamond industry and that they relocate their businesses to Northern Canada, the oil and gas company have to.

I think that in the private sector a lot of people are establishing their business in Northern Canada and a lot of them probably will if they realize that there is this extra work out there. I think in the oil and gas industry, especially in my region in regard to Inuvik, we are seeing a lot of companies and firms trying to establish businesses because they know there is an opportunity there and we have to realize as a government that it is part of our mandate to attract companies and that they be established in Northern Canada and keep that expertise in the North.

Sooner or later we are going to have to realize that we are just one sector in the Northern economy in which we are looking at the diamond industry, the oil and gas industry and on the environmental capacity and human resource that these people bring is also a bonus and I think we have to, if anything, support that and also continue that practice ourselves.

MR. CHAIRMAN: I think, as Mr. Voytilla has pointed out, that these are comments that need to be passed on to the Minister. I think he can do that for you, but we really need to get the Minister in front of us to do that. I would like to thank you, Mr. Voytilla, Mr. Carter, for your attendance at our session for the past day and a half. It has been instructive, informative, I think. We have had a good dialogue and I appreciate your willingness to provide us with

answers. Those responses that you have promised forthwith, we will be watching for in a very short period of time and trust that we will see them very quickly. Thank you.

MR. VOYTILLA: Thank you, Mr. Chairman. It is always a pleasure to appear. I appreciate the questions. There is a lot of food for thought there and I will sit down with the committee clerk and make sure that we are just clear on commitments made so we can get those to you as soon as possible.

MR. CHAIRMAN: Thank you. Okay. For Members of the committee, we have initially scheduled the hour and half this morning for the in-camera wrap up for the review. We can take 15 or 20 minutes right now.

--ADJOURNMENT